



## Minutes

<b>Meeting Title:</b>	Market Advisory Committee ( <b>MAC</b> )
<b>Date:</b>	5 April 2022
<b>Time:</b>	9:30am – 11:32am
<b>Location:</b>	Videoconference (Microsoft Teams)

<b>Attendees</b>	<b>Class</b>	<b>Comment<sup>1</sup></b>
Sally McMahon	Chair	
Martin Maticka	Australian Energy Market Operator ( <b>AEMO</b> )	
Dean Sharafi	AEMO	
Zahra Jabiri	Network Operator	
Genevieve Teo	Synergy	
Paul Keay	Small-Use Consumer Representative	
Noel Schubert	Small-Use Consumer Representative	
Geoff Gaston	Market Customer	
Timothy Edwards	Market Customer	
Patrick Peake	Market Customer	
Wendy Ng	Market Generator	
Jacinda Papps	Market Generator	
Rebecca White	Market Generator	
Paul Arias	Market Customer	
Peter Huxtable	Contestable Customer	
Noel Ryan	Observer appointed by the Minister	
Adrian Theseira	Observer appointed by the Economic Regulation Authority ( <b>ERA</b> )	Proxy for Rajat Sarawat

<b>Also in Attendance</b>	<b>From</b>	<b>Comment</b>
Dora Guzeleva	MAC Secretariat	Observer
Laura Koziol	MAC Secretariat	Observer
Shelley Worthington	MAC Secretariat	Observer

Also in Attendance	From	Comment
Richard Bowmaker	Robinson Bowmaker Paul (RBP)	Observer
Tim Robinson	RBP	Presenter
Apologies	From	Comment
Rajat Sarawat	ERA	

Item	Subject	Action
1	<p><b>Welcome</b></p> <p>The Chair opened the meeting at 9:30am with an Acknowledgement of Country.</p> <p>The Chair reminded members and statutory observers that the role of the MAC is to advise the Coordinator and that any advice must consider the interest of the WEM.</p> <p>The Chair reminded members that she is available to meet members individually offline and thanked Mr Peake for taking the time to meet her since the last MAC meeting.</p> <p>The Chair advised that:</p> <ul style="list-style-type: none"> <li>she ceased working as Head of Economic Regulation and Energy Policy at Spark Infrastructure in March; and</li> <li>her position as expert panel member on the WA Electricity Review Board remains current.</li> </ul> <p>Mr Robinson advised that RBP has been asked by a Market Participant to assist with the Participant system readiness for the start of the new market. Mr Robinson considered that this engagement does not present a conflict of interest for RBP's engagement with the Coordinator's review of the Reserve Capacity Mechanism. Mr Robinson noted that RBP is implementing measures to mitigate any potential perceived conflict of interest including segregating the teams working on the two engagements.</p> <p>The Chair noted that she had discussed the matter with Ms Guzeleva and they both considered that RBP's engagement does not present a conflict of interest.</p>	
2	<p><b>Meeting Apologies/Attendance</b></p> <p>The Chair noted the attendance as listed above.</p>	
3	<p><b>Minutes of Meeting 2021_12_14</b></p> <p>Draft minutes of the MAC meeting held on 1 March 2022 were circulated on 16 March 2022. The MAC accepted the minutes as a true and accurate record of the meeting.</p> <p><b>Action: The MAC Secretariat to publish the minutes of the 1 March 2022 MAC meeting on the Coordinator's Website as final.</b></p>	<p><b>MAC Secretariat</b></p>

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4	<p><b>Action Items</b></p> <p>Action Item 2/2022: The Chair noted that she met with Mr Gaston, Mr Maticka and Ms Guzeleva and discussed issue ID 22 from the Market Development Forward Work Program. The outcome of this meeting will be discussed under agenda item 5. The MAC closed the action item.</p>	
5	<p><b>Market Development Forward Work Program</b></p> <p>The paper was taken as read. The following topics were discussed.</p> <p><b>Cost Allocation Review</b></p> <p>Ms Guzeleva provided an update on the Cost Allocation Review advising that:</p> <ul style="list-style-type: none"> <li>• work on the Cost Allocation Review had commenced;</li> <li>• EPWA has engaged Marsden Jacob to assist with the review;</li> <li>• EPWA is in the process of establishing a working group and planning to schedule the first meeting in early May;</li> <li>• the work program will be shared with the MAC at its next meeting and this will include an international review of cost recovery mechanisms that exist in other jurisdictions.</li> </ul> <p><b>Issue ID 22</b></p> <p>The Chair reported that, as per action item 2/2022, she met with Mr Gaston, Mr Maticka and Ms Guzeleva on 29 March 2022 and discussed the issue. The meeting concluded that this issue can be closed because of AEMO's recent change to the WEM Procedure: Prudential Requirements, addresses the main issue by eliminating the duplication of prudential burden on Market Participants. The Chair noted that any remaining issues may be raised as new issues.</p> <p>Mr Gaston noted that he was preparing a summary of the remaining issues that he will send to Ms Guzeleva and Mr Maticka.</p> <p>Mr Maticka noted that he was investigating with the relevant project team at AEMO if any further changes can be included in the work package implementing the system changes for the new WEM. He noted that upon first assessment no further changes can be included but that he would report back with the final findings.</p>	
6	<p><b>Update on Working Groups</b></p> <p><b>(a) AEMO Procedure Change Working Group (APCWG)</b></p> <p>The paper was taken as read.</p> <p>The Chair noted that nothing new was reported in the paper and asked Mr Maticka if there was any other information to be provided under this agenda item.</p> <p>Mr Maticka advised that this standing paper provides a status update and will contain more detail when a Procedure Change Proposal is progressed. Mr Maticka offered for AEMO to change the reporting under this agenda item if requested.</p>	

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	<p>The Chair asked the MAC members if any other information should be discussed under this agenda item.</p> <p>The MAC agreed that the reporting under this agenda item is currently serving its purpose.</p> <p><b>(b) RCM Review Working Group (RCMRWG)</b></p> <p>The paper was taken as read.</p> <p>Ms Guzeleva noted that the purpose of the presentation on the international review is for the MAC members to:</p> <ul style="list-style-type: none"> <li>• increase general knowledge on international reserve capacity mechanisms;</li> <li>• note the lessons that can be learned for the WEM Reserve Capacity Mechanism;</li> <li>• note feedback received by the RCMWG; and</li> <li>• provide additional feedback.</li> </ul> <p>Mr Robinson presented the findings from the review of various international reserve capacity markets, drawing lessons for the WEM and summarising comments and discussions from the RCMRWG. Mr Robinson advised that the Energy Security Board's (ESB's) Summary of International Case Studies, circulated with the meeting papers, contained markets similar to those reviewed by RBP and noted that EPWA and RPB intended on meeting with the ESB to discuss the issues of common interest.</p> <p>The following key issues were discussed by the MAC:</p> <ul style="list-style-type: none"> <li>• Mr Dean Sharafi requested that RBP considers transmission buildout in the model because it will be required for storage capacity to meet short to medium term capacity and firming of Intermittent Generators.</li> </ul> <p>Mr Robinson advised that:</p> <ul style="list-style-type: none"> <li>○ the model assumes that new facilities will be built in places with sufficient network capacity and that the network will be upgraded as needed;</li> <li>○ the timeline for the RCM Review, unlike the Whole of System Plan (<b>WOSP</b>), does not allow for the modelling of different transmission network investment options; and</li> <li>○ the need for storage and firming of Intermittent Generators is considered in all scenarios and that additionally demand side participation will be important.</li> </ul> <p>Ms Guzeleva added that all 2050 scenarios are based on net zero emissions by 2050 and that there is one scenario where all conventional baseload retires by 2030.</p> <ul style="list-style-type: none"> <li>• Mr Huxtable, sought clarification about the nature of the demand side participation considered.</li> </ul> <p>Mr Robinson clarified that the demand side participation considered for 2050 includes behind the meter consumption</p>	

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	<p>such as air conditioning as well as batteries and that reduction of behind the meter PV is considered separately. Ms Guzeleva noted that a further review will be needed to assess how dispatchable loads may be included in all aspects of the WEM.</p> <p>Mr Schubert commented that the largest source of demand response is likely to be available from larger customers.</p> <ul style="list-style-type: none"> <li>• Ms White asked how the Government’s decarbonisation policies, including the Sectoral Emissions Reduction Strategies (SERS) will inform the RCM Review. Ms White considered that enabling renewable generation to participate is good but quite different from incentivising it. Ms White suggested that a government policy decision would be needed to inform the RCM Review.</li> </ul> <p>The Chair noted that while a government policy direction on that matter would be beneficial, she did not consider it a prerequisite for the RCM Review. The Chair considered that it is sufficient if the RCM anticipates and does not prevent or disincentivise the increase of renewable generation.</p> <ul style="list-style-type: none"> <li>• Mr Sharafi considered that network constraints should not affect the assignment of CRC because they are already accounted for through the Network Access Quantity (NAQ) regime.</li> <li>• Mr Schubert considered that the Individual Reserve Capacity Requirement (IRCR) is a good mechanism to motivate smaller retailers and customers to manage demand on the hottest days but not the dominant retailers.</li> <li>• Mr Sharafi noted that the RCM does not need to solve all system stress events and should only address the issues it is best placed to mitigate. Mr Sharafi suggested that the modelling could be extended to the whole of system costs. Mr Sharafi also commented that with any application of Effective Load Carrying Capability (ELCC) it is important to consider simplicity and transparency given that developers need to base investment decision on certainty.</li> </ul> <p>Mr Robinson noted that different options to apply ELCC will be presented to the RCMRWG at a future working group meeting, take feedback and then undertake further analysis.</p> <ul style="list-style-type: none"> <li>• Mr Sharafi suggested the alternative to implementing ELCC would be retaining or modifying the existing methods for assigning Certified Reserve Capacity (<b>CRC</b>) using minimum requirements to ensure that fleet reflects system needs in regard to dispatchability and firm capacity.</li> <li>• Mr Peake considered that the RCM as a package must be sellable to investors and that it is important that the RCM is simple to explain for investors. He also said that the multiple</li> </ul>	

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	<p>changes over the last few years have been detrimental to setting the ground rules.</p> <p>Mr Robinson noted that the purpose of the review is undertaken with the WEM Objectives in mind to design an RCM for the benefit of the consumers because they will pay the price if the design of the RCM is inefficient.</p> <ul style="list-style-type: none"> <li>• Mrs Papps considered that the objective for designing methods to assign CRC should be to streamline where possible rather than insisting on design of a single method for all technology types.</li> <li>• Mrs Papps supported the objective to simplify the methods to assign CRC and noted that it is difficult to explain the current RCM to investors.</li> </ul> <p>Mr Robinson confirmed that this was the objective.</p> <ul style="list-style-type: none"> <li>• Mr Schubert supported the importance of keeping consumers in mind. He considered that consumers want reliable supply at the lowest costs. He also considered that the application of a net cost of new entry <b>-(CONE)</b><sup>1</sup> would be in the interest of consumers as it accounts for the generators' different income streams.</li> </ul> <p>Mr Robinson noted that the review will assess the impact of different measures on revenue streams for existing and potential new participants.</p> <ul style="list-style-type: none"> <li>• Ms Ng noted that when looking at the capacity mechanisms in other jurisdictions the relevant energy price caps should also be considered. Ms Ng raised concerns that the current Energy Price Limits (EPLs) may not allow generators to recover sufficient revenue in the new market to make the application of CONE or Net-CONE workable. Ms White agreed with Ms Ng.</li> </ul> <p>Mr Robinson said that the other markets reviewed have higher energy price caps than the WEM.</p> <p>Ms Guzeleva noted that the STEM and balancing market rarely settle at the price limits. In 2021, in the STEM no Trading Interval settled at the maximum or alternative maximum STEM price; and in the balancing market only 23 Trading Intervals (approx. 0.1% of the Trading Intervals) settled at the maximum STEM Price. She added that EPWA's Market Power Mitigation workstream will examine the level of the price caps.</p> <ul style="list-style-type: none"> <li>• Mr Sharafi suggested that more clarification should be provided about the modelling assumptions for the ESS</li> </ul>	

<sup>1</sup> **CONE** = capital investment costs plus operational and maintenance expenses incurred during the first year of operation of the new entrant

**Net-CONE** = CONE less an estimate of the energy/ancillary services market profits for the entrant. This measure assumes that the marginal new entrant would receive some contribution to capital costs from the energy market.

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	<p>requirements, the use of electric vehicles, hydrogen and distributed energy resources (DER) at net zero emissions in 2050. He also suggested that for the modelling, RBP should use the ESOO forecast for the first 10 years and the WOSP for the remaining years and the work on low load to inform any changes to the ESOO load projections.</p> <p>Mr Robinson noted that for the first round of modelling, the assumptions Mr Sharafi mentioned are less important because the focus is on assessing system stress. However, for the second modelling round they will be important.</p> <p>Mr Robinson suggested to meet with Mr Sharafi offline to discuss the assumptions.</p> <p>Ms Guzeleva noted that, as presented at the previous MAC meeting, all the modelling scenarios include a technology-neutral firming component for 2050.</p> <ul style="list-style-type: none"> <li>• Mr Keay considered that customers should not pay for non-performing capacity in the RCM and asked how the issue of non-performance will be addressed.</li> </ul> <p>Mr Robinson noted that to address the issue the following two aspects will be considered:</p> <ul style="list-style-type: none"> <li>○ Setting of the Planning Criterion: The Planning Criterion sets the level of desired reliability. Therefore, it sets the amount of capacity that needs to be paid for. It is possible to set the Planning Criterion by minimising the value of unserved energy and the cost of capacity.</li> <li>○ Penalising capacity providers that don't perform: As part of Stage 1 the RCM Review will assess how historic outages should be considered when assigning CRC, and as part of stage 2 the review will assess the refund mechanism.</li> </ul> <p>The Chair noted that the bigger picture is to develop a mechanism that achieves the outcome at lowest possible cost to consumers. The Chair considered that this will include the design of requirements and incentives such as refunds.</p> <ul style="list-style-type: none"> <li>• Ms Guzeleva noted the review will proceed following the steps and stages outlined in the scope of work and that all of the issues that have been identified in one step will be addressed by the following steps and every stage will consider the findings of the previous stages.</li> <li>• The Chair asked whether the timelines outlined in the scope were still on track and what will be discussed at the next MAC meeting.</li> </ul> <p>Ms Guzeleva confirmed the timelines are on track and advised that the plan is to discuss initial modelling results</p>	

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	from the system stress analysis as well as preliminary design options at the next MAC meeting.	
<b>7</b>	<b>Rule Changes</b>	
	<b>(a) Overview of Rule Change Proposals</b>	
	The paper was taken as read.	
<b>8</b>	<b>General Business</b>	
	No other business was discussed.	

**The meeting closed at 11:32 am.**