



Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	15 November 2022
Time:	9:00am –10:54am
Location:	Videoconference (Microsoft Teams)

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

Also in Attendance	From	Comment
Dora Guzeleva	MAC Secretariat	Observer
Shelley Worthington	MAC Secretariat	Observer
Sally Ryan	AEMO	Presenter
Erin Stone	AEMO	Observer

Also in Attendance	From	Comment
Tim Robinson	Robinson Bowmaker Paul (RBP)	Presenter
Grant Draper	Marsden Jacob Associates (MJA)	Presenter
Peter McKenzie	MJA	Observer

Apologies	From	Comment
Dean Sharafi	AEMO	
Jacinda Papps	Alinta	

Item	Subject	Action
1	<p>Welcome</p> <p>The Chair opened the meeting at 9:00am with an Acknowledgement of Country.</p> <p>The Chair advised the MAC that her appointment as Commissioner to the Australian Energy Market Commission (AEMC) commenced on 10 October 2022.</p> <p>The Chair noted that she would continue in the roles of independent Chair of the MAC, the PAC and the GAB. She also noted any advice to the Coordinator from the MAC presents the views of the MAC and not necessarily represent the views of the Chair.</p> <p>The Chair declared her ownership of shares relevant to the energy sector, including shares in FMG, Woodside and Mineral Resources, although she has already disposed of shares in FMG and Woodside.</p> <p>The Chair also advised that she is still a member of the expert panel on the Electricity Review Board (ERB) but that she will resign from this position as a result of being appointed Commissioner on the AEMC once the substantive ERB decision is made on Application 1 of 2019, which is expected before the end of November 2022.</p> <p>The Chair advised that she is no longer special advisor to the Coordinator of Energy.</p>	
2	<p>Meeting Apologies/Attendance</p> <p>The Chair noted the attendance and apologies as listed above.</p> <p>The Chair noted the competition law obligations of the MAC members, asked that members read the paper outlining these obligations and invited members to bring any matters they may identify to the attention of the Chair.</p>	
3	<p>Minutes of Meeting 2022_10_11</p> <p>The MAC accepted the minutes of the 11 October 2022 meeting as a true and accurate record of the meeting.</p> <p>Action: The MAC Secretariat to publish the minutes of the 10 October 2022 MAC meeting on the Coordinator's Website as final.</p>	MAC Secretariat

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4	<p>Action Items</p> <p>The Chair noted there were no open action items.</p>	
5	<p>Market Development Forward Work Program</p> <p>The paper was taken as read</p>	
6	<p>Update on Working Groups</p> <p>(a) AEMO Procedure Change Working Group (APCWG)</p> <p>Mr Maticka noted that relevant the papers were published on AEMO’s website on 11 October 2022 and the presentation was uploaded 14 November 2022.</p> <p>Ms Ryan noted that there were two reasons for bringing this procedure change proposal to the MAC:</p> <ul style="list-style-type: none"> • fuel supplies are currently a high profile issue that has been in the press, drawing attention to reliability over the summer; and • the proposed changes are intended to apply to the current round of certification for which applications close on 14 February 2023. <p>Ms Ryan noted that AEMO was currently managing a tight supply/demand situation and has called for supplementary capacity for the coming summer. The latest Electricity Statement of Opportunities indicates an 8 MW surplus in 2024/25 and deficits beyond that.</p> <p>Ms Ryan indicated that AEMO is looking for investment over the medium term because the Wholesale Energy Market (WEM) is entering a tighter supply/demand situation than it has seen for the last decade.</p> <p>Ms Ryan noted there are some fuel supply challenges that have been well covered in the media, and the preliminary forecast in the early Gas Statement of Opportunities indicates a tightening gas market over the coming years.</p> <p>Ms Ryan noted that AEMO must form a reasonable expectation of the amount of capacity likely to be available in peak periods and, given that it is aware of current and future fuel supply problems, AEMO feels it will be beneficial to obtain additional information to provide greater confidence and certainty in the capacity certification process.</p> <p>Ms Ryan noted that the main changes to the procedure relate to the information requirements in the certification process. The intent was to make clear what information AEMO requires to form a reasonable expectation about the amount of capacity available for the 2024/25 capacity year. The information requirements relate to the nature of the fuel supply, including:</p> <ul style="list-style-type: none"> • transportation; • measures put in place to manage risks around fuel supply; • fuel reserves; and • mitigations to manage any risks that are evident or foreseeable. 	

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	<p>Ms Ryan indicated that the second component of the proposed changes is that AEMO has made explicit a few things that were previously implicit but perhaps not clear, including that AEMO:</p> <ul style="list-style-type: none"> • in assessing certification applications, takes into account information about plant availability and capability, including fuel; • needs to weigh the likelihood and the impacts of any issues on power system reliability; and • is able to take into account any issues that it is aware of. <p>Ms Ryan indicated that AEMO has proposed this procedure change to ensure that the best assessment is made in the certification process, based on information provided, to ensure that sufficient capacity is procured to meet forecast demand, which is the primary purposes of the RCM.</p> <p>Ms Ryan sought feedback from the MAC on whether it considers that the information that AEMO proposes to collect is reasonable and appropriate, or if anything has been missed that would be helpful to enable AEMO to assess Certified Reserve Capacity (CRC) applications.</p> <p>Ms Ryan noted that submissions close on 9 December 2022 and that an APCWG meeting was scheduled for 21 November 2022.</p> <p>Mr Carlberg noted he generally supported the intent of the proposal but that it was drafted too broadly in that it impacts all facilities, including gas facilities, which are not subject to the current restrictions. Mr Carlberg noted issues with the 14-hour fuel requirement, which is too onerous, and indicated that AEMO already had a trigger to request this kind of information. It could use this in a more targeted way to obtain information from just those facilities for which it considers there may be an issue.</p> <p>Ms Ryan noted that, regardless of fuel type, AEMO needs to get a reasonable assessment of fuel delivery risks and that past performance is not necessarily a reliable indicator of future performance. Ms Ryan added that AEMO would welcome suggestions on the right terminology to use in the procedure.</p> <p>Ms Ryan agreed that the WEM Rules allow AEMO to collect this information and indicated that the procedure change proposal is trying to clarify what information is required. Ms Ryan indicated that this does not preclude AEMO from communicating regarding a particular facility if it was aware of a particular risk and ask that the risk is addressed. Ms Ryan noted that AEMO wants to clarify its expectations to everyone about the information that will assist it to make a firm assessment that AEMO can stand behind.</p> <p>Mr Alexander noted there was collective interest in a secure electricity supply over summer and, while the issue last summer was a network issue, no one wanted it repeated. Consumers are aware of what is</p>	

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	<p>happening nationally and internationally and Mr Alexander believed there was a concern in this new environment.</p> <p>Mr Arias expressed concerns about the requirements, as drafted, and questioned if the back casting exercise (over the past three years) helps to achieve the intended outcome or gives an indication of what may be happening with fuel contracts in the next 24 to 36 months. Mr Arias also noted that the significant amount of data required in relation to gas supply would be a very onerous task and may lead to compliance issues.</p> <p>Ms Ryan, noted that using only 12 months of data would artificially inflate the relevance of a particular year, which is a good reason to look further back. This information would allow AEMO to conduct a risk assessment and to explain its decisions to certify particular facilities, and that the data would make AEMO aware of any fuel delivery risks and that there is a robust plan for managing those risks.</p> <p>Mr Peake agreed with Mr Carlsberg that the issue with gas supply is quite different from coal and asked if these changes provided an opportunity to get rid of the 14-hour rule.</p> <p>Ms White asked whether there was also opportunity to look at the Supplementary Reserve Capacity (SRC) procedure to clarify the process and noted that she could provide some more specific feedback offline.</p> <ul style="list-style-type: none"> • Ms Guzeleva noted that the WEM Rules require a review of the SRC WEM Rules, which will be done in due course. • Ms Ryan added that AEMO was keen to also review the SRC procedure because the SRC process had not been run for some time and some things may not have worked as well as AEMO might have liked. • Ms White asked if the review would be done in time for the next potential SRC procurement. • Ms Guzeleva indicated that SRC cannot be run earlier than six months before the start of a capacity year and acknowledged that there will be some time pressures and noted that there will be consultation with stakeholders, including with the MAC. <p>Mr Gaston noted that he was wary of the amount of information AEMO was seeking, which may lead to a reduction in Capacity Credits and would create the problem that AEMO was trying to avoid.</p> <p>Mr Edwards noted that the significant policy changes are probably the biggest distractor for new investment, not information.</p> <p>The Chair noted that members need to keep in mind the WEM objectives and there was a trade-off between the onus and effectiveness of the information, and AEMO's ability to ensure compliance.</p> <p>Mr Huxtable noted that reliability is very important for end-users but that this needs to be balanced against cost.</p>	

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	<p>Mr Schubert supported Mr Alexander's and Mr Huxtable's comments and noted that a blanket requirement for lots of information from all generators might be overkill, and noted that dual fuel generators have a backup fuel and that AEMO may not need as much gas supply information from them.</p> <p>The Chair summarised that the MAC is conscious of the onus of the information but supported the need for an appropriate and effective risk assessment.</p> <p>Ms Ryan thanked the MAC, noted that the APCWG would meet on 21 November 2022, and advised the MAC that there was opportunity to contact AEMO for a one on one meeting, if required.</p>	

(b) RCM Review Working Group (RCMRWG)

The papers for agenda item 6(b) were taken as read.

MAC members are being asked to:

- note the update on the assessment of options for penalties for high emission technologies; and
- note the update on the EPWA's work on certification of intermittent generators; and
- provide feedback on the planned further analysis in relation to certifying intermittent generators.

Penalties on High Emissions Technologies:

Ms Guzeleva noted that the Reserve Capacity Review Working Group (**RCMRWG**) was working within the constraints of the Draft Statement of Policy Principles on the Penalties for High Emission Technologies. Ms Guzeleva noted that options will be presented to the MAC on 13 December 2022 and that the RCMRWG expressed a preference for a penalty on actual energy produced and that the penalty should not implemented through the RCM.

Ms Guzeleva indicated that a number of RCMRWG members provided options that might be available to implement the penalty, including;

- an approach very similar to the UK arrangements, where technologies with emissions above a certain limit do not receive Capacity Credits; and
- use of the LGC framework.

Certification of Intermittent Facilities:

Mr Robinson noted that the volatility in the year-on-year results of the assessment of intermittent generator output is a function of the inherent volatility of those generators, not the assessment method. A firm facility would not have year-to-year volatility under any of the proposed methods. Slide 9 shows the level of volatility that we are trying to deal with.

Mr Robinson noted that:

- the reason for the volatility of the outputs is because the fleet output is volatile in times of system stress;

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	<ul style="list-style-type: none"> • fleet performance varies significantly year to year and it varies significantly within the year in the high stress intervals; and • the best performance was in the year with the lowest peak demand. <p>Mr Robinson noted that RBP would review the Individual Reserve Capacity Requirements (IRCR) method because the IRCR intervals can be significantly different intervals to the high demand intervals and there could be mismatches with incentives where generators are incentivised to perform in one way and loads in a different way.</p> <p>Mr Robinson noted that the key point for MAC members was that the variation and volatility in the fleet output and the individual facility output drives the volatility. Mr Robinson noted the further analysis that is proposed is to look at how to address volatility between years without risking system reliability.</p> <p>Mr Robinson noted that in most years the fleet was outperforming its Relevant Level Method capacity credits, which highlights that the current method is too conservative and leads the market to buy more capacity than is needed.</p> <p>Mr Robinson noted that EPWA is looking for a method that reflects what facilities actually do in system stress intervals so consumers are not forced to pay for capacity that is not available when it is needed.</p> <p>Mr Gaston asked Mr Robinson to explain how IRCR intervals can in some cases be different than peak demand intervals.</p> <ul style="list-style-type: none"> • Mr Robinson explained how IRCR intervals are picked. • Mr Gaston asked what the probability was of not getting almost all of the peak intervals in the IRCR intervals, noting that he thought that the IRCR intervals were pretty good measure and that the IRCR method may change through the RCM Review. • Mr Gaston noted that there might be a need to investigate whether the wind was the same across all IRCR days. • The Chair noted that there is no desire to change the method to artificially lower the Capacity Credits at the same time when more capacity is needed. <p>Mr Gaston noted that addressing volatility is a commercial decision for the wind farms, and if they do not like the year-on-year volatility of the CRC results, then they should do something about it, like installing a battery.</p> <p>Mr Edwards raised concerns that future IRCR Trading Intervals may not reflect system stress if AEMO dispatches load reduction services such as the services contracted as supplementary capacity.</p> <p>Mr Robinson clarified that, for the purpose of the assessing intermittent generators, the system demand was adjusted for any dispatch of load reduction services.</p> <p>Mr Alexander noted that slide 10 generally shows that fleet is outperforming the allocated CRC, and asked about the symmetry of</p>	

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the risks. That is, if outperforming and underperforming can be equated or was there a need to worry about instances where there is underperformance and if that was considered.

- Mr Robinson noted that the risk is not symmetric – there is a risk of giving facilities fewer Capacity Credits than their performance would suggest, but if they are given too many Capacity Credits and they underperform, then it is consumers who suffer.

Mr Robinson noted that the further analysis and options to minimise year-to-year volatility of CRC allocations for intermittent facilities, to provide certainty for investors, would smooth that volatility in a way that reduces the number of Capacity Credits allocated, rather than increasing them for a particular year. Both the Hybrid Method and the Delta Method calculate a fleet Effective Load Carrying Capability (**ELCC**) number and then divide that up among the various facilities, trying to smooth that from year-to-year. One of the proposed principles is that the fleet CRC for the evaluation period should be a ceiling for the CRC allocated in a year, which avoids being overly generous.

- Ms White noted that there is a potential perverse outcomes for investment because the method does not incentivise it and, as indicated by Ms Ryan’s earlier presentation, there is problem with capacity at the moment so now is not the time to risk that. Ms White also noted that, with regard to Mr Gaston’s comment about wind farms needing to do better by installing a battery, there may be times when that is appropriate, but that this comes at a cost and noted that batteries can get Capacity Credits as well.

Mr Robinson noted that you could think of under allocating as short-changing generators, but under-allocating to intermittent generators also results in the need to buy more capacity, which also comes at a cost to consumers.

- Mr Carlberg was concerned with how long consideration of CRC allocation had been going on.
- The Chair noted that it is very difficult to forecast the future based on history in this space and that there is a trade-off between underestimating for the purposes of issuing Capacity Credits, which may mean customers pay more, versus over allocating and not having adequate supply, and asked if the MAC members supported further analysis.
- Ms Guzeleva noted that stage two of the RCM Review is still to come which will look at the IRCR. Ms Guzeleva also noted that there is an option to bring intermittent generators in line with everybody else where they pay refunds for non-performance and asked if members are willing to consider that.
 - Mr Carlberg noted he did not agree with this option because wind farms are so volatile and will face a huge risk of refunds from one year to the next.

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	<p>The Chair noted that the MAC endorsed the further analysis proposed in relation to certifying intermittent generators.</p> <p>Mr Robinson advised that the plan is to bring CRC allocation to the RCMRWG in December 2022 for a final recommendation.</p>	

(c) CAR Working Group (CARWG)

The paper 6 (c) was taken as read. The MAC was being asked to: note the update provided regarding further progress made by the Cost Allocation Review Working Group (**CARWG**) and endorse the proposed way forward for assessment of methods for allocation of frequency regulation costs.

Ms Guzeleva noted that the upcoming CARWG meeting had moved from 22 to 29 November 2022 because of the need to develop further understanding of the Tolerance Method to allocate Frequency Regulation costs.

Mr Draper noted the options that were discussed previously for the allocation of Frequency Regulation costs and noted that the current National Energy Market (**NEM**) Causer-Pays method was very complicated, with costs allocated over a 28 day period. This meant that participants could not change their behaviour until the following month to avoid Frequency Regulation charges. He noted that it was not appropriate to apply the method in the WEM.

Mr Draper noted that the AEMO presented further information on the new NEM Causer-Pays Method to the CARWG on 25 October 2022. Under this method participants would be paid for providing a response to correct frequency deviations and those that did not would be charged. Charges were billed over a 7 day period providing a better incentive for participants to react and change their behaviour, which helps with efficiency and reduces the requirement Frequency Regulation. Mr Draper noted that this option was still in development and was not due to be implemented until 2025, so its outcomes are untested. He added that this method is quite complicated, although it is simpler than the current NEM method.

Mr Draper provided an overview of the methodology that was used to assess each of the proposed methods to allocate Frequency Regulation costs.

Mr Draper noted that the new NEM Causer-Pays methodology will effectively compensate parties for providing primary frequency response (**PFR**), which was not contemplated in the WEM as PFR is mandatory under the Generator Performance Standards.

Mr Draper recommended that the MAC endorses deferring consideration of adopting the new NEM Causer-Pays Method until it has been successfully implemented in the NEM and the benefits demonstrated, and to reconsider AEMO’s proposed Tolerance Range Method to allocate Frequency Regulation. Mr Draper advised that a meeting has been arranged with AEMO for further discuss the Tolerance Range Method and the next step would be to develop the

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	<p>preferred approach for allocating Frequency Regulation costs for consultation in the Consultation Paper.</p> <p>Mr Schubert supported deferring the consideration of the new NEM Causer-Pays method and noted that the Tolerance Range Method seemed very complicated. Mr Schubert asked MJA to identify the impact on consumers of going one way or another.</p> <ul style="list-style-type: none"> Mr Carlberg supported deferring the consideration of the new NEM Causer-Pays method and noted that, more broadly, he would like the same considerations be applied to the Tolerance Range Method. He noted that the Essential Systems Service (ESS) market might not impact the WEM for very long given Synergy's planned investment in 2,000 to 4,000 MWh of storage. Mr Carlberg noted that there were huge challenges with the transition itself and a complex ESS cost recovery method could detract from getting the amount of investment required over the next 10 years. Ms White and Mr Edwards supported Mr Carlberg's comments. <p>The Chair noted that there was general endorsement of the proposed way forward for the assessment of methods for allocation of frequency regulation costs from the MAC.</p>	
7	<p>Rule Changes</p> <p>(a) Overview of Rule Change Proposals</p> <p>The paper was taken as read. There were no updates.</p> <p>Ms Guzeleva noted that the timeframe for the four rule change proposals will need to be extended and that the Coordinator would publish something shortly.</p>	
8	<p>MAC Schedule</p> <p>The Chair noted that the MAC Schedule for 2023 shifted the day of the meeting from Tuesdays to Thursdays and the schedule was accepted by the MAC.</p>	
9	<p>General Business</p> <p>The Chair noted a potential review of the operation of the MAC in early 2023, covering its effectiveness and role, and reminded MAC members of their role as representatives of their particular groups in light of the market objectives.</p> <p>Ms Guzeleva noted that Project Eagle was proceeding, which will consider changes to the market objectives, and that a consultation paper on the plan for this will be published.</p> <p>The next MAC meeting is scheduled for 13 December 2022.</p>	

The meeting closed at 10:54am.