



## Minutes

<b>Meeting Title:</b>	Market Advisory Committee ( <b>MAC</b> )
<b>Date:</b>	9 August 2022
<b>Time:</b>	2:00pm – 3:00pm
<b>Location:</b>	Videoconference (Microsoft Teams)

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

<b>Also in Attendance</b>	<b>From</b>	<b>Comment</b>
Jai Thomas	Energy Policy WA	The Coordinator of Energy ( <b>CoE</b> )
Dora Guzeleva	MAC Secretariat	Observer
Shelley Worthington	MAC Secretariat	Observer

<b>Apologies</b>	<b>From</b>	<b>Comment</b>
------------------	-------------	----------------

Wendy Ng	Market Generator	Resigned
----------	------------------	----------

Item	Subject	Action
<b>1</b>	<b>Welcome</b>	
	The Chair opened the meeting at 2:00pm and thanked MAC members for attending this out of session meeting which had been scheduled at short notice.	
<b>2</b>	<b>Meeting Apologies/Attendance</b>	
	The Chair noted the attendance and apologies as listed above.	
<b>3</b>	<b>Draft Policy Statement</b>	
	<ul style="list-style-type: none"> <li>○ The Chair invited Mr Thomas, the Coordinator of Energy (<b>CoE</b>), to introduce the subject.</li> <li>○ Mr Thomas requested MAC members' feedback on: <ul style="list-style-type: none"> <li>● the draft statement of policy principles (Statement); and</li> <li>● incorporating the Statement into the Reserve Capacity Mechanism Review (the RCM Review).</li> </ul> </li> <li>○ Mr Dean Sharafi asked when this was intended to take place and how it would impact the things that we have in train already, like the RCM Review, noting it would impact the timing of the Review.</li> <li>○ Mr Thomas replied that the timing was to be determined, but ideally the Statement will be incorporated in the RCM Review rather than done in isolation or following the Review. Mr Thomas noted that, as this was an additional scope item, there was a need to understand the impact it will have on the RCM Review, and that the best way to deal with it within the timeframes was still to be determined.</li> <li>○ Mrs Jacinda Papps asked how high carbon emissions were going to be defined.</li> <li>○ Mr Thomas replied that there would be a need to design a methodology for that and, for example, this may involve a CO2 coefficient based on a rated output or some deemed measure for performance over time. Work on the definitions will be required, but Mr Thomas noted that what he was seeking feedback on now is the intent and what needs to be clarified in the Statement.</li> <li>○ Mrs Papps asked whether applying the policy to the energy markets, as opposed to the capacity mechanism had been considered and if an assessment of the two options has been undertaken to determine which one might achieve a better outcome.</li> <li>○ Mr Thomas replied that, as with most elements of the Statement, if there are alternative options of better delivering the intent they should become evident and explored through the review. The RCM with its administered pricing regime was the logical place for this to be implemented. However, there is a degree of flexibility and if through industry consultation a better option becomes evident the Minister would be open to that. That is, while at face</li> </ul>	

Item	Subject	Action
	<p>value the RCM seems the logical place for this, other options can be explored.</p> <ul style="list-style-type: none"> <li>○ Mrs Papps noted that in the Statement the reference to Clause 2.5.2 of the WEM Rules left out the part that any statement of policy principles must not be inconsistent with the WEM Objectives and would like to see the full clause requirements covered in the statement of policy principles.</li> <li>○ Mr Thomas noted the WEM Objectives were enshrined in legislation. Mr Thomas noted currently various reform processes were underway in the Project Eagle work program which include reforming the WEM Objectives to provide more flexibility in the energy transition. Mr Thomas acknowledged that this issue with the existing WEM Objectives needs to be resolved before a final Statement is issued.</li> <li>○ Ms Teo sought to clarify, whether the intent was to provide incentive to emitters to avoid the penalty by reducing their emissions or whether there was to be an additional incentive mechanism on top of that penalty.</li> <li>○ Mr Thomas noted that the Statement outlines a policy principle that is seeking to achieve a net zero impact on the overall cost of the RCM. At a high level, this is about identifying high emitting technologies, applying the penalty and routing those penalties into the incentivisation of new firming technologies. The design and how it will actually work are to be determined, but the intent of the Statement is to ensure that the overall quantum of RCM cost to consumers should not increase. How that might work will need to be worked through and these questions will naturally arise in the deeper design stage of the policy.</li> <li>○ Ms Teo asked if the Statement was aiming to facilitate hydrogen uptake in the energy mix.</li> <li>○ Mr Thomas replied that there was no link to specific firming technologies per se, noting that the Government has announced a consultation process for a renewable hydrogen target, but that was very much separate to the Statement and will likely take a longer and different route. While the Statement alludes to alternative firming technologies, it is not seeking to necessarily pick one technology over another but it is most certainly seeking a low emissions technology outcome.</li> <li>○ Mr Schubert noted that during the Expert Consumer Panel meeting 8 August 2022, Ms Guzeleva presented an example of how this might work in the RCM, which may help MAC members understand how the policy may work.</li> <li>○ Ms Guzeleva noted that as there is an administered price in the RCM there is an ultimate Reserve Capacity Price outcome for each facility. The example provided as for how this might work was to apply a facility utilization factor, a technology carbon intensity index and some set value to carbon to the ultimate Reserve Capacity Price.</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li>○ Mr Arias noted that the Bluewater’s units would more than likely be swept up in high emissions and sought to clarify whether there would be consideration of the actual utilization of the capacity in the energy market. Mr Arias noted that the guiding principles of the RCM Review are similar to the WEM Rules Objectives and asked if they would be adjusted.</li> <li>○ Mr Thomas noted that in terms of capacity versus actual output, this will be something the Minister is looking for in the detailed design to deliver on the policy intent that he has outlined. The complexity will need to be worked through as this Statement is about a transition to a low emissions power system. The actual energy output will need to be factored in this and other mechanisms and is something that we cannot shy away from.</li> <li>○ Ms Guzeleva noted that one of the objectives for the RCM Review is to meet the WEM objectives, and there would be a need to examine how the objectives for the RCM Review might need to change. In the Statement there is intent to incorporate the design of policy in the RCM Review.</li> <li>○ Ms White sought to understand how the WEM Objectives to avoid discrimination against technologies fits with the Statement.</li> <li>○ Mr Thomas noted that the Objectives are enshrined in legislation and taking this Statement forward will rely on those Objectives being amended in legislation under Project Eagle.</li> <li>○ Ms White noted that the Statement is framed as incentivising investment in new technologies and that this made sense on a principle level but sought clarification on the retrospective application of the policy, noting that: <ul style="list-style-type: none"> <li>● amending the RCM as a result of the review would work on a forward-looking basis;</li> <li>● existing incumbents have made investment decisions based on the RCM framework as it was at the time; and</li> <li>● it is important to apply consistent policy principles.</li> </ul> </li> <li>○ Mr Thomas noted the two limbs of the draft Statement - the penalties for high emissions technologies and applying those to provide an incentive for firming technologies, with the first one targeting incumbent and new facilities, and the second one to be applied to new technologies. How we deal with these two limbs is certainly something for us to consider. It is about targeting the generation mix we currently have, transitioning that as a whole and assisting that transition through the RCM Review. Mr Thomas noted that he was not expecting to discuss with the Minister the penalty limb and the policy of covering both incumbent and new high emitting technologies as this was set in stone.</li> <li>○ Ms White noted that the Statement sounds like introducing a new carbon accounting scheme. She also provided an example of a battery, that may not be necessarily synonymous with “green”, as it may be charged with “grey” energy. Ms White asked if Energy</li> </ul>	

Item	Subject	Action
	<p>Policy WA had considered the costs of implementation and how these would be measured/recovered.</p> <ul style="list-style-type: none"> <li data-bbox="304 331 1222 667">○ Mr Thomas noted that there was no specific methodology currently as to how this will be achieved, noting that any compliance requirements will need to bear the relevant costs in mind. This is a Statement of policy principles. While these are good observations in terms of implementation, there are broader considerations for carbon accounting methodologies that may apply both nationally and, potentially, at a state level that are emerging. Mr Thomas noted the need to consider the approach to verifying and validating that the outcomes are being delivered in line with the policy principles.</li> <li data-bbox="304 685 1209 846">○ Mr Peake asked if the penalty money will be distributed to other generators noting there does not appear to be any alternative firming technologies looking for support at the moment or will it be held in a fund until those firming technologies are actually available.</li> <li data-bbox="304 864 1203 1003">○ Mr Thomas replied that ultimately how the incentive works, how it is distributed, the timing of its distribution and the application to certain facilities, lies ahead and is to be worked through with the collective minds of the MAC.</li> <li data-bbox="304 1021 1219 1357">○ Mr Edwards sought to clarify how the Statement fits with Rule Changes that were put on hold and promised to be dealt within the RCM Review noting that, if the intent was to reduce carbon emissions, the latest AEMO WEM dashboard portal shows how perverse it is that those changes were not addressed several years ago when initially brought up. Mr Edwards provided a comparison between Collgar with 16 MW of capacity credits, while being available 100% of the year and generating 86% of the time, and Collie with 317 MW of capacity credits assigned and generating for 63% of the year.</li> <li data-bbox="304 1375 1222 1536">○ Mr Edwards noted that he was surprised that the policy statement had been put forward when those Rule Changes were pushed back and not being addressed. Mr Edwards questioned why the Statement has been brought up as a new thing when you have not fixed the things that have been outstanding for years.</li> <li data-bbox="304 1554 1219 1850">○ Mr Thomas noted that ultimately the RCM Review is seeking to make sure the system adequacy framework is fit for purpose in the transition to a new generation mix (particularly with consumers electing to become generators in their own right) and ensuring the RCM is delivering on the various systems stresses that are emerging in the new power system. There are various elements of the RCM Review that are really trying to stress test the capacity mechanism and make sure it delivers from a system adequacy perspective.</li> <li data-bbox="304 1868 1222 1971">○ Mr Thomas noted that it was his understanding that the issues that Mr Edwards referred to are being covered off as best as they can be within the RCM Review, and was confident that the scope of</li> </ul>	

Item	Subject	Action
	<p>the review was seeking to address what is required to keep the RCM current and enduring into the future.</p> <ul style="list-style-type: none"> <li>○ Ms Guzeleva noted the RCM Review Working Group had undertaken a lot of work recently to look at the particular issue Mr Edwards raised, with some members in the working group proposing alternative solutions, and the intent was to be absolutely sure about the contribution each type of facility can make in the peak demand intervals on the system. This is not an average capacity contribution issue, it is contribution to meet the Planning Criteria at stress events.</li> <li>○ Mr Sharafi asked if there was an intention to apply a scaling, such as a carbon intensity index to technologies and sought to clarify if it would not be easier to just apply a surcharge on fossil fuels.</li> <li>○ In addressing Mr Sharafi's first question Mr Thomas noted that this was a design element to be worked through, and that scaling is certainly one of the things on the list to cover off. Mr Thomas noted that, if an alternative methodology to delivering on this Statement emerges as the most fit for purpose way of delivering on its intent, he believed the Minister will be open to that, noting there is nothing to limit this in the Statement. Mr Thomas acknowledged that he was open to the feedback received that the current draft Statement may limit further exploration of non-RCM based mechanisms.</li> <li>○ The Chair noted that it made sense that the RCM Review investigates this policy, given that it is looking at whether a MW of capacity is still a MW of capacity from a reliability perspective, noting there has been some interest from stakeholders in getting some guidance on how the policy around reducing emissions should be taken into account in the RCM Review.</li> <li>○ Mrs Papps noted that the meeting was too short to make final views, but sought to clarify whether consideration had been given to how this interacts with the price cap and floor protections that have been committed through to 2031, as maintenance and investment decisions were based on this. Mrs Papps noted her comment extends on Ms White's question around protections for incumbents.</li> <li>○ Mr Thomas noted that this was recognised but was not something to necessarily cover in the Statement. The implementation has to deliver on the policy principles and the broader objectives are to consider it through the RCM Review. How it actually works and delivers on its intent, and any consideration of any incumbent arrangements or pre-agreed arrangements will need to be worked through.</li> <li>○ Mr Maticka sought to clarify whether the Benchmark Reserve Capacity Price (<b>BRCP</b>) would be in scope, as it is based on a thermal unit, and therefore it is a carbon emitting unit that sets the BRCP.</li> <li>○ Mr Thomas replied that anything that naturally relates to the implementation of these policy principles will have to be</li> </ul>	

Item	Subject	Action
	<p>considered in light of the policy implementation. Mr Thomas noted that the session was very useful in determining an expanded list of things to work through, but emphasised the need to finalise the Statement with the Minister, with the rest to follow and be considered in the deeper design at a later stage.</p> <ul style="list-style-type: none"> <li>○ The Chair sought the views of the MAC on the Statement.</li> <li>○ Mr Huxtable noted that he was generally supportive but noted that, while the Statement does not preclude other options outside the RCM, it would be better if it explicitly stated that it did not have to be implemented via the RCM (although it could be part of the RCM Review) as it has gone some way to not exclude anything else but has not specially said so. Mr Huxtable noted that it would be a really challenging exercise to fit this in, in the midst of a lot of other challenging things going on in the RCM Review.</li> <li>○ Mr Gaston did not view this as a good policy and considered the RCM is a bad place to put this type of thing in, noting that it should instead be in the form of a carbon tax, or something similar, adding that the way it is set-up appears to be a transfer of wealth from existing investors to new investors. Mr Gaston also had concern with regard to: <ul style="list-style-type: none"> <li>● sovereign risk;</li> <li>● difficulties in running business, that will arise without the appropriate arrangements in place; and</li> <li>● adding to an already immensely complex RCM Review process.</li> </ul> </li> <li>○ Mr Keay noted that his response was on behalf of small consumers and that, in general, he would support the policy principles. Mr Keay noted that the way RCM works is that there is a load side and a generation side and, as most PPA are within a portfolio, the impact on these portfolios might net out and not be that big (for the two big ones especially). Mr Keay did not believe it to be particularly complicated to try and address the policy via the RCM.</li> <li>○ Ms Jabiri questioned whether the policy should be included in the RCM and suggested a workshop to decide if it was the appropriate place. It was Ms Jabiri's observation that the RCM process is already happening with a complex scope and questioned the need to add complexity to it. If the policy was to be future focused Ms Jabiri would consider its intent is positive.</li> <li>○ Ms Teo did not have any views to share and sought the opportunity to provide written feedback.</li> <li>○ Mr Thomas noted that feedback was welcomed in any form but stressed the need to progress to a final draft statement of policy principles, with the deeper work to follow. Mr Thomas noted that the intent was to finalise this with the Minister over the next couple of weeks.</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li>○ The Chair noted that time was of the essence and late feedback may not make its way into the process of finalising the principles with the Minister.</li> <li>○ Mr Schubert made comments on behalf of the consumer panel: noting: <ul style="list-style-type: none"> <li>● that energy generated is a sound basis for determining the quantum of emissions and therefore the monetary value of the penalty;</li> <li>● changing high emissions to emissions intensity should take account of upstream emissions;</li> <li>● the benefits of tying this to a Carbon Price Mechanism; and</li> <li>● demand side is a very low cost way of reducing emissions and ought to be able to participate in this emissions reduction policy.</li> </ul> </li> <li>○ Mr Peak supported differential reserve capacity prices for different types of plants, noting that the idea of using the RCM to support new technologies, where there is very high capital cost such as green hydrogen development, is quite a good idea. Mr Peake raised concerns about going backwards, supporting Ms White's comments with regard to penalising generators already in existence and noting the need to be careful that the reserve capacity price is based on what an investor would actually expect to recover when they are building a plant.</li> <li>○ Mr Peak noted that presumably, once all the coal fire plant has gone, the high emissions plants which are going to be subsidising the new ones are going to be the Open Cycle Gas Turbine (<b>OCGT</b>). Mr Peak noted the need to be careful on the message sent to investors, believing the problem with the RCM over the last 15 years was that it has been changed so often it is not trustworthy.</li> <li>○ Mr Edwards noted that, if the RCM is going to stay more or less the way it is, then the differential pricing for high and low emission generators in the capacity mechanism is a good thing and he would support it. He agreed with Mr Schubert that the place for it might not be in the RCM if that changes, because it really should be based on the emissions produced, which is really more related to energy not capacity.</li> <li>○ Mr Edwards noted that this leads straight into Mr Gaston comments that, if this is about energy based emissions, it should not be something that we stand alone on in the WEM but it should be a broader state or, probably, a national type carbon based scheme letting market forces do the work.</li> <li>○ Ms White noted that deciding whether the principles are appropriate depends on the problem you are trying to solve because, if the problem is lack of enough investment in renewables and batteries, there is other lower hanging fruit to address that. Ms White noted that comments regarding sovereign risk should not be dismissed.</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li data-bbox="300 248 1214 584">○ Ms White noted that making it harder for existing generators to participate, and possibly make them exit earlier, would not necessarily change decisions to <b>invest in other facilities</b>. She suggested addressing other issues to do with network planning, timing of investment, loss factors, battery regulation, and connection process would perhaps be a better use of time and resources. Ms White noted that there needed to be real consideration of whether the RCM is the right home for this and, if it was, questioned what that meant for the value of the RCM if it was going to be changed retrospectively.</li> <li data-bbox="300 600 1214 835">○ Ms White supported comments on this policy being energy based rather than capacity based, noting that it is not actually whether you are there or not, but what you do with the thing that contributes to emissions. There are a lot of questions around storage that would be quite tricky to deal with, as storage does not necessarily mean green, and that there are many barriers other than coal and gas plant being there.</li> <li data-bbox="300 851 1214 1055">○ Ms White noted the potential for this to be complicated and costly, and could be a really expensive way of sending an incentive from one side of the business to the other. Ms White noted that Collgar would find it very hard to support the policy, although would, in principle, support incentives that help renewables and storage be added to the system.</li> <li data-bbox="300 1070 1214 1626">○ Mrs Papps supported the comments made and noted those made by Ms White and Mr Peak around sovereign risk stood out. Mrs Papps also supported Mr Huxtable's comments on drafting the statement open enough to be able to consider other implementation options and: <ul style="list-style-type: none"> <li data-bbox="347 1256 1190 1323">● welcomed the intent to incentivise renewable generation and storage;</li> <li data-bbox="347 1339 1190 1507">● noted the broad concerns around applying penalties via the RCM with a risk that generators may not be able to manage their exposure, which could cause conflict with the RCM Review Objectives, particularly in enabling orderly transition; and</li> <li data-bbox="347 1523 1190 1626">● raised concern that speeding up the transition could cause unanticipated or very early retirement decisions, resulting in a perverse impact in the longer term</li> </ul> </li> <li data-bbox="300 1641 1190 1776">○ Mr Arias noted the message around sovereign risk, as future investments will be made by some of the incumbents and this should be considered in terms of impact policy changes. He also noted the cost and time to implement.</li> <li data-bbox="300 1792 1214 2027">○ Mr Arias noted that the question of whether an emissions policy should be built into the RCM came up as part of the RCMR Working Group and the overwhelming response was the RCM is designed for other purposes. Therefore, Mr Arias mirrored Mr Huxtable's comments around the Statement itself, noting there was drafting changes required to make sure the Statement is open to finding the best solution to achieve the policy outcomes.</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li>○ Mr Sharafi provided a statement that AEMO will support whatever policy the government puts together. However he noted two concerns regarding: <ul style="list-style-type: none"> <li>● the need to implement this in a way that does not lead to an early exit of generators, creating reliability issues; and</li> <li>● the impact on AEMO's functions, noting that AEMO clears the market based on a zero sum outcome. Therefore, holding penalties to redistribute them will change that principle.</li> </ul> </li> <li>○ Ms White supported the points raised by Mr Edwards on the Certified Reserve Capacity (<b>CRC</b>) method adding that it would be unfortunate if this slowed progress, as doing so would delay investment decisions and be counterproductive as no one will make an investment decision under the current Relevant Level Method (<b>RLM</b>), and that progress on CRC needs to happen quickly.</li> <li>○ Mr Maticka expanded on Mr Sharafi's comment, noting the need to ensure sufficient generation types to keep the system secure. He also noted that considering this as part of the RCM Review is appropriate because of the need to ensure that any changes do not result in insufficient generation.</li> <li>○ Mr Maticka noted that if the review determines that it is not necessary to make the changes in the RCM but in the energy market that may be a better place for it. It makes sense, however, to consider this in the RCM Review because we do not want an incentive that actually leaves us in a position needing to seek extra capacity because we have had earlier retirement.</li> <li>○ Mr Thomas noted he was seeking to finalise consideration of the MACs feedback and then propose amendments to the Statement for the Minister to review and assess in line with the overall policy intent of the government. Feedback from the MAC was requested to flow through the Chair by close of business (<b>COB</b>) next Tuesday 16 August. Mr Thomas noted the emphasis should be on the words in the Statement, with recognition that the deeper design will come later and also acknowledged the need for a bit of flexibility in the drafting to allow for other options to emerge if they are more appropriate.</li> <li>○ The Chair concluded that the MAC was to summarise the views and issues that have been raised today and provide written advice as the MAC, and that MAC members could also independently provide their own written feedback by COB Tuesday 16 August 2022.</li> </ul>	

---

**The meeting closed at 3:00pm.**

---