



Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	2 May 2024
Time:	9:30am –11:37am
Location:	Microsoft Teams online meeting

Attendees	Representing in MAC	Comment
Sally McMahon	Chair	
Tom Butler	Australian Energy Market Operator	
Katie McKenzie	Australian Energy Market Operator	
Genevieve Teo	Synergy	
Noel Schubert	Small-Use Consumer Representative	
Christopher Alexander	Small-Use Consumer Representative	
Zahra Jabiri	Network Operator	Left 11:34 am
Jacinda Papps	Energy Producer	
Adam Stephen	Energy Producer	
Paul Arias	Energy Producer	
Patrick Peake	Energy Retailer	Left 11:30 am
Tim Edwards	Energy Retailer	
Rajat Sarawat	Economic Regulation Authority (observer)	
Noel Ryan	Minister (observer)	

Non-member attendees	From	Comment
Dora Guzeleva	EPWA	MAC Secretariat
Bronwyn Gunn	EPWA	MAC Secretariat
Shelley Worthington	EPWA	MAC Secretariat
Sean McAvoy	EPWA	MAC Secretariat
Dr Matt Shahnazari	Economic Regulation Authority	Presenter for Item 5(b)
Tim Robinson	Robinson Bowmaker Paul (RBP)	Presenter for Item 5(d)
Eija Samson	RBP	Observer for Item 5(d)

John Nicolaou	ACIL Allen	Observer for Item 6
Apologies	From	Comment
Peter Huxtable	Contestable Customer	Apology
Geoff Gaston	Energy Retailer	Apology

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1 Welcome

The Chair opened the meeting with an Acknowledgement of Country.

The Chair noted that she had no conflicts to declare.

The Chair noted her role as Commissioner at the Australian Energy Market Commission and that the views or advice provided by the MAC to the Coordinator do not necessarily represent the views of the Chair.

The Chair noted the Competition and Consumer Law obligations of the MAC, inviting members to bring to her attention any issues should they arise.

The Chair noted that MAC operates for the good of the Wholesale Electricity Market (WEM) Objectives and members are to participate in the interests of the stakeholder group they represent. Any specific views pertaining to particular organisations can be provided through the applicable consultation processes.

2 Meeting Apologies/Attendance

The Chair noted the attendance and apologies as listed above.

3 Minutes of Meeting 2024_03_21

The 21 March 2024 meeting minutes were approved out of session and published on the Coordinator's website on 23 April 2024.

4 Action Items

The Chair noted the open Action Items.

The Chair noted that item 2/2024 is to remain open.

The Chair asked if item 4/2024 could be closed.

- Mrs Papps noted that the inconsistency between the figures presented to the MAC and those in the Transmission System Plan created uncertainty for generation investment in the WEM. She also noted that she was not aware of what the MARNET scheme was.
- Mr Edwards agreed with Mrs Papps.
- Mr Schubert noted that he was not aware of what the MARNET scheme was.
- Ms Jabiri acknowledged that the analysis had not been clearly communicated and suggested that Western Power could provide further clarity at the next MAC Meeting about the discrepancy in the

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figures. Additionally, Ms Jabiri would bring a subject matter expert to further elaborate.

The Chair agreed that 4/2024 would remain open but modified to include the query regarding the MARNET scheme and for Western Power to provide further clarity at the next meeting and bring a subject matter expert, if required. The Chair noted that when information is presented to the MAC it should be consistent with published figures or the differences explained.

The Chair noted that 6/2024 and 8/2024 were closed, but that 9/2024 was still open.

- Mr Sarawat noted that the ERA had completed an assessment into the frequency co-optimised essential system services (FCESS) market and concluded that it is not working effectively. He noted that there may be several reasons for this, such as uplift payments, bidding behaviour and contingency reserve raise requirements, and that they may be interconnected, and that the ERA needs time to determine the root causes. Mr Sarawat stated that, while the ERA collaborates with EPWA and AEMO in investigating the FCESS market, the ERA maintains its position as an independent regulator.
- Mr Arias asked if the FCESS ineffectiveness was due to the outcomes of the market not reflecting the principles around cost or due to structural issues with the WEM such as the number of participants or technology types.
- Mr Sarawat stated that the review was looking at price outcomes, not the number of participants or competition robustness.
- Ms Teo asked if anything would be published by the ERA or EPWA about this.
- Mr Sarawat stated that a report on the findings to date would not be published. He noted that there will be an investigation over the next six months, and publication would depend on which agency the issue sits with and its publication requirements.
- Ms Guzeleva noted that there were about a dozen key issues to dig into, and six months would be required for AEMO, the ERA and EPWA to work together and investigate all these properly. She stated some of these include:
 - the tie breaking rules that may be leading to more facilities being dispatched than necessary;
 - facilities failing to convert available capacity to in-service capacity;
 - notice periods being longer than they need to be; and
 - minimum enablement quantities for FCESS being higher than necessary.
- She further explained that, while there is some indication of what might be having the biggest impact, it would be premature to make changes to the fundamentals of the market now. To allow enough time to investigate and engage with market participants, including

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	<p>about bidding behaviour, a temporary cap on the FCESS clearing price ceiling of \$500 will be put in place from 22 May to 20 November. Additionally, the required date for the ERA's determination of the Energy Offer Price Ceiling will change to 1 January 2025 and a review will be done in parallel to determine whether any changes need to be made to the calculation of that.</p> <ul style="list-style-type: none"> • She noted that, following the investigation, any rule changes arising from that would be subject to consultation. • Mr Alexander requested more detail about the materiality of the price changes since the commencement of the new WEM. • Ms Guzeleva noted that prices for some services have been six-fold higher. She noted that some of these may be passed through to other generators, not directly to consumers. • Ms Teo asked why the temporary price ceiling does not match the current energy price ceiling. • Ms Guzeleva responded that a balance had to be struck between bringing down some of the high FCESS costs and not distorting the market. • Ms Teo asked if any consultation would happen for the temporary rule change. • Ms Guzeleva stated that, given the urgency, there will not be consultation, and noted that this was akin to administered pricing, which is common to many markets in the presence of adverse outcomes. • Mrs Papps asked if the changes would impact the submission deadline for the ERA's Energy Offer Price Ceiling draft determination. • Mr Sarawat noted that this would be pushed back. • Mr Arias requested further information about the choice of \$500. • Ms Guzeleva noted that this ceiling will not prevent participants from bidding in the way they do today, but that this is a cap on the final calculation that exists for settlement purposes. She reiterated her earlier point that \$500 was chosen from several options as it is sufficient to make a difference without significant market distortion. • Ms Teo asked whether the six-month mandatory requirement to offer FCESS services would be extended and noted that Synergy may become the default provider otherwise. • Ms Guzeleva responded that the requirement would not be extended and noted that this would be a significant change that would require consultation. She added that, given the levels of uplift payments that are not impacted by the temporary change, it would be surprising if accredited participants opted not to participate in the market. 	
	<p>The Chair noted that MAC members could reach out to Dora or Rajat via email with any further questions and the item was closed.</p>	

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5	Update on Working Groups	
	<p data-bbox="295 331 1077 365">(a) AEMO Procedure Change Working Group (APCWG)</p> <p data-bbox="295 383 687 416">The paper was taken as read.</p>	
	<p data-bbox="295 450 1238 517">(b) ERA’s BRCP (Benchmark Reserve Capacity Price) WEM Procedure Review Working Group Working Group (BRCPWG)</p> <p data-bbox="295 533 1238 667">Dr Shahnazari, the Chair of the BRCPWG, presented slides 2 and 6 to 16 in the papers, covering the proposals regarding technical specifications, cost components, cost estimation method and annualisation (including the proposed annuity tilt).</p> <ul data-bbox="295 685 1238 1205" style="list-style-type: none"> <li data-bbox="295 685 1238 887">• Mr Alexander stated that the proposal raised a major concern for consumers as it looked like a transfer of risk to consumers and brought forward significant costs. He added that batteries have other revenue streams, that are not accounted for in the gross cost of new entry (gross CONE) method. He noted that a submission by the Expert Consumer Panel would state this and provide more detail. <li data-bbox="295 904 858 938">• Mr Schubert agreed with Mr Alexander. <li data-bbox="295 956 1238 1122">• Mr Peake agreed and stated that the significant increase in the BRCP would flow through customers. However, he could see the reasoning behind it for potential investors. Mr Peake questioned if there was a way to provide investment certainty without increasing the price for everyone. <li data-bbox="295 1140 1102 1205">• Ms Teo asked if it was possible to get an extension on the submission deadline. <p data-bbox="295 1223 1174 1288">Dr Shahnazari stated that any stakeholder can submit an extension request to the ERA.</p> <ul data-bbox="295 1305 1185 1413" style="list-style-type: none"> <li data-bbox="295 1305 1185 1413">• Ms Guzeleva asked if the ERA considered that a battery energy storage system (BESS) would over-recover its capital cost in the energy market for a long period due to the use of gross CONE. <p data-bbox="295 1431 1238 1659">Dr Shahnazari responded that Gross CONE was a policy decision taken as an input into the calculation and outside the ERA’s responsibility. Dr Shahnazari noted that gross CONE was chosen because previous modelling showed battery revenue is predicted to decrease rapidly after the first few years, and that gross CONE and net CONE would equalise over time. He stated that there was a need for an annuity tilt that provided investment certainty.</p> <p data-bbox="295 1677 1161 1785">The Chair asked how often the BRCP is set and if the proposed approach was to allow generators to benefit in the first year due to decreasing capital costs affecting later years.</p> <p data-bbox="295 1803 1238 2027">Dr Shahnazari noted that the BRCP is set annually with the reference technology changing every three years. Therefore, as the BRCP is set annually with a constant method that estimates the capital cost, the decreasing battery costs without an annuity tilt will create a negative net-present value. Hence, a constant factor such as the annuity tilt will make sure that the net-present value overall is based on the expectation of capital expenditure over that 15 year period.</p>	

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	<p>Dr Shahnazari also stated that the goal was to incentivise investment to meet the reliability needs of the system through the energy transition.</p> <p>Mr Arias stated that the first years are the riskiest and the proposed annuity tilt tries to reduce new entrance risk encouraging investment that brings long-term investment.</p> <p>The Chair thanked members for the discussion and concluded the discussion</p>	
	<p>(c) Power System Security and Reliability Standards (PSSR) Working Group (PSSRSWG)</p> <p>The Chair noted the updates, and the papers were taken as read.</p>	
	<p>(d) WEM Investment Certainty (WIC) Review Working Group (WICRWG) Update</p> <p>Ms Guzeleva presented slides 2 to 5 on the Capacity Investment Scheme (CIS), noting that:</p> <ul style="list-style-type: none"> • the WIC Review Initiative 3 is aimed at addressing the issue of how to support renewable generation, that does not receive its full nameplate capacity in Capacity Credits in the RCM, to recover its costs in an environment of declining energy market prices; • external factors, such as the CIS, must be considered in developing the design proposals for Initiative 3; • the CIS was comparable to a contract for differences; • the CIS would underwrite 500MW of storage capacity for eligible projects in the first auction; • notwithstanding this, there is concern that decarbonising the system to net zero by 2050 will require a level of renewable generation and storage beyond this; and • following the publication of the CIS WA Design paper the WICRWG held a meeting on 24 April 2024; and • a great deal of WICRWG discussion was that access to the CIS is dependent on the ability of projects to receive Capacity Credits. The capacity component of the CIS is based on a payment per Capacity Credit held. The WICRWG expressed concerns that there are many dependencies, especially around network risk. <p>Mr Robinson presented slides 7 and 8 noting that the policy proposals were still at a high level, and that the CIS design had to be taken as an input into Initiative 3.</p> <ul style="list-style-type: none"> • Ms Teo asked whether the WIC scheme would run alongside the CIS and if participants would be eligible to receive payments from both schemes. <p>Ms Guzeleva advised that this had been discussed in the WICRWG and that participants would not be eligible for both schemes. Ms Guzeleva further noted that:</p>	

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- a prerequisite for access to the support under Initiative 3 was for a participant to have made an unsuccessful submission for the CIS; and
- the two schemes would operate at the same time but not in parallel for individual projects.

Mr Robinson presented slide 9 noting that:

- WICRWG discussion focused on how Initiative 3 would operate, now that it was understood how the CIS would operate in the WEM; and
- a proposal based on a merger of options B and C would be presented at the next WICRWG meeting on 29 May 2024.
- Mrs Papps questioned if there was any urgency for this initiative at this stage noting that the final design of the CIS is unknown.
- Mr Schubert also questioned the timing noting that there was a need for the decision to be carefully considered because of the long-term implications. He added that, although it is desired that the Commonwealth funds projects in the WEM, there was a need to avoid funding projects that are already underway and would happen regardless.

Ms Guzeleva responded that the Commonwealth is clear that, apart from facilities that received specific financial support, projects are eligible if they have not reached financial closure by December 2022. The objective is for the WA consumers to pay less for these projects.

- Ms Teo asked whether a similar approach to a cut-off date would be used for Initiative 3.

Ms Guzeleva responded that WICRWG had not discussed this and that it would be examined at the next WICRWG meeting.

Mr Robinson presented slide 10 and noted that:

- if anything changes with the CIS and/or timelines do not align, there was an opportunity to wait for further detail before finalising the proposal; and
- the work undertaken so far in developing the proposal for Initiative 3 would not be wasted regardless of what happens with the CIS.

The Chair noted that there was tension between moving forward and developing the proposal for Initiative 3 while the outcome of the CIS design in the WEM was unknown.

Ms Guzeleva noted that decisions would not be made until June when the first auction will have commenced. The work is still at the analysis stage and can be adjusted as necessary.

6 Update on the MAC Review Process and the Procedure Review

The Chair sought views on whether the MAC members should convene out of session to review the independent report and provide a response to the Coordinator.

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	<ul style="list-style-type: none"> Ms Jabiri noted that Western Power had one-on-one discussions with the consultants but supported the proposal to convene the MAC to review the independent report. Ms Jabiri considered that this could be a good opportunity for the MAC to provide additional insight before any recommendation is provided to the Coordinator. <p>The Chair clarified that the MAC would convene and provide a response to the Coordinator on the independent report rather than provide input into the report.</p> <ul style="list-style-type: none"> Ms Jabiri noted the clarification and supported the proposal. Mr Butler supported Ms Jabiri's point of view that the MAC should convene to provide additional insight. He noted that both independent reports for the MAC Review and the Procedure Change Process Review affect the MAC and that the MAC should understand its role in the Procedure Change Process. Mr Schubert noted that it would be useful to see a draft report to see how the consultants have interpreted the survey responses. <p>Ms Guzeleva noted that a consultation paper would be coming out in the next few days, and there would not be an opportunity to review that.</p> <ul style="list-style-type: none"> Mr Stephen supported the proposal but questioned the timing for the MAC to convene and prepare a response to the Coordinator. Mr Stephen noted that the MAC meeting is on 25 July and the Coordinator must publish a response by 31 July. <p>The Chair noted that this would require an additional MAC meeting but may be unnecessary given all MAC members have had the chance to talk to the independent consultants.</p> <ul style="list-style-type: none"> Mr Edwards expressed a view that MAC members would have enough opportunity to engage through the consultation. Mr Edwards considered that given the timing constraint raised by Mr Stephen, he did not see value in the proposal. Mrs Papps agreed with Mr Edwards and noted that the MAC already has a significant workload. <p>The Chair asked for an indication from members about whether they supported an additional meeting to provide advice on this report.</p> <ul style="list-style-type: none"> Mr Schubert asked whether the MAC had to decide now, or if members could review the paper and then decide. <p>The Chair explained that given the time constraints, a meeting would need to be scheduled now.</p> <ul style="list-style-type: none"> Mr Alexander did not support an out of session meeting, noting that each member's individual views were more important than a combined MAC view. Mr Butler requested clarity on when the MAC will receive the independent report. <p>The Chair responded it would be part of the papers for the 25 July meeting.</p>	

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	<p>The Chair concluded the discussion noting that the MAC will not convene to assess the MAC Review’s independent report, and the process will remain as outlined in the paper.</p>	
<p>7</p>	<p>WEM Procedure Content Assessment</p> <p>The Chair sought approval for the Term of Reference (TOR) for the Procedure Content Assessment Working Group (PCAWG), noting the feedback from the last meeting had been considered.</p> <ul style="list-style-type: none"> Mr Butler questioned the timing to commence the Procedure Content Assessment, noting the dependence on the Procedure Change Process Review. Mr Butler noted that the Procedure Content Assessment is scheduled to begin on 1 June 2024, before the Coordinator publishing a response to the independent audit; <p>Ms Guzeleva clarified that the work on the Procedure Content Assessment would not commence before the Coordinators response to the independent audit of the Procedure Change Process Review and agreed to review the timeframes in the Terms of Reference</p> <ul style="list-style-type: none"> Mr Butler noted the timing for publishing amendments to the Rules if changes to procedures are required. Mr Butler noted that the current schedule outlined in the TOR is to publish an Exposure Draft in December and have Rules published and final Procedures published by February, which he considered would be difficult to achieve. <p>Ms Guzeleva agreed to review these timeframes.</p> <ul style="list-style-type: none"> Mr Butler noted that AEMO will have an obligation in the near term to look at procedures in the context of the revised State Electricity Objectives. Mr Butler suggested aligning the implementation of the Procedure Content Assessment with the review of procedures against the State Electricity Objectives. <p>Ms Guzeleva agreed with that and noted that EPWA and AEMO could coordinate schedules.</p> <ul style="list-style-type: none"> Ms McKenzie noted that given the volume of reviews and issues that the sector is dealing with, the Procedure Content Assessment Working Group should consider how material any changes are and what the trade-offs might be in terms of progressing other work underway. She suggested that some words be added that any cost benefit analysis should be considered in the context of the broader reform program. <p>The Chair concluded the discussion by noting that the MAC members approved the TOR, subject to the actions below.</p>	<p>EPWA and AEMO</p> <p>EPWA</p>
	<p>ACTION: Meet offline to discuss and align the schedule of the PCAWG to account for the review of the WEM Procedures against the State Electricity Objective.</p>	<p>EPWA and AEMO</p>
	<p>ACTION: Update the WEM Procedure Content Assessment Working Group TOR with the proposed adjustments to the timeline and the proposed reference to cost benefit analysis.</p>	<p>EPWA</p>

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8	<p data-bbox="296 259 1209 327">Review of the Essential System Service Framework including Scope of Work and Terms of Reference for a MAC working group</p> <p data-bbox="296 338 1246 405">The Chair noted that the MAC was asked to note the scope of work (SOW) and approve the TOR.</p> <ul data-bbox="296 427 1246 528" style="list-style-type: none"> <li data-bbox="296 427 1246 528">• Mrs Papps asked for clarification on the interaction between the Essential System Service (ESS) Framework Review and the review being carried out by ERA/EPWA as discussed in the action items. <p data-bbox="296 539 1246 651">Ms Guzeleva advised that the review of the ESS framework brought forward a statutory review required to be conducted by the Coordinator under Chapter 3 of the WEM Rules, and noted that:</p> <ul data-bbox="296 674 1246 1189" style="list-style-type: none"> <li data-bbox="296 674 1246 775">○ any of the outcomes from the ERA review discussed in the action items will be accounted for in the ESS Framework Review; <li data-bbox="296 786 1246 931">○ the ESS Framework Review would focus less on cost outcomes in the market and more on the actual drivers, including the FCESS requirements, as well as the Supplementary Essential System Services Mechanism (SESSM); <li data-bbox="296 943 1246 1077">○ the ESS Framework Review will commence in July and the FCESS costs review was anticipated to have come to some conclusion around materiality and potential solutions by that time. <li data-bbox="296 1088 1246 1189">• Ms Jabiri asked for an overview of all reviews and timelines for all the working groups and associated activities for internal resource allocation. <p data-bbox="296 1211 1246 1447">Ms Guzeleva noted that information was already provided and updated in the MAC agenda paper on the forward work programme. She noted that many of the reviews were technically closed, but they would remain on the forward work program until an implementation schedule was provided by AEMO and the Amending WEM Rules implemented. Ms Guzeleva noted that EPWA could summarise the reviews at a high level but that every cell in the forward work program links to the working groups.</p> <p data-bbox="296 1458 1246 1626">The Chair noted that it would be helpful to have that information summarised in one table, with information such as when the working group commenced, key milestones and anticipated conclusion. The Chair considered this would clarify the commitment of resources and the work underway.</p> <p data-bbox="296 1637 1246 1738">Ms Guzeleva noted that the reviews can be summarised at a high level in a table but encouraged members to continue to review the detailed information.</p> <ul data-bbox="296 1760 1246 1895" style="list-style-type: none"> <li data-bbox="296 1760 1246 1895">• Mr Stephen questioned why a review of the WEM fundamentals was out of scope, noting that an outcome of the review could be that a fundamental part of the market design could be the cause of some of the issues. <p data-bbox="296 1906 1246 2018">Ms Guzeleva responded that revisiting the market foundation principles would be a larger review than what was proposed in the ESS Framework Review. She suggested that the TOR could be updated to reflect that,</p>	

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	<p>while a review of the WEM fundamentals is out of scope, any issues identified concerning the foundation principles of the WEM will be logged/ captured but will not be addressed within this review.</p> <p>The Chair noted that the MAC agreed to the establishment of the Working Group and its TOR was approved with updates to reflect the MAC's feedback.</p>	
	<p>ACTION: Provide a one-page table with high-level overview of MAC Working Groups in future papers</p>	EPWA
	<p>ACTION: Update the ESS Framework Review TOR to log any issues regarding the WEM fundamental principles</p>	EPWA
9	<p>Market Development Forward Work Program</p> <ul data-bbox="296 752 1206 884" style="list-style-type: none"> • Mr Butler stated that some significant work and publications are expected in the future, such as those from Project Symphony, and asked how they would fit into the MAC's work program and if the MAC would be interested in receiving briefings. <p>Ms Guzeleva expressed concern that this work is being progressed by other committees and that work should not be duplicated. She noted that work is underway to consider how Distributed Energy Resources (DER) should be incorporated into the Reserve Capacity Mechanism and the MAC would be consulted on that.</p> <ul data-bbox="296 1093 1206 1444" style="list-style-type: none"> • Mr Butler noted that the DER work is more concerned with the market interface. • Several MAC members expressed support for the idea of receiving publications. • Ms Teo asked if there was any update on AEMO determining the sequencing of the RCM Reform Rules. • Mr Butler responded that AEMO expects to provide EPWA with an update in the next few weeks. After that, AEMO will circulate an update to the market participants. 	
	<p>ACTION: AEMO to liaise with EPWA to circulate any future significant papers to the MAC.</p>	EPWA
10	<p>General Business</p> <p>The Chair noted the next MAC meeting would be held online on 13 June 2024.</p>	

The meeting closed at 11:37am.