

## Market Advisory Committee (MAC) - Minutes

<b>Date:</b>	17 October 2024
<b>Time:</b>	9:45am – 11:30am
<b>Location:</b>	Level 1, 66 St Georges Terrace, Perth, WA 6000, and Microsoft Teams online

Attendees	Representing in MAC	Comment
Sally McMahon	Chair	
Katie McKenzie	AEMO	10:50am - 11:24am
Genevieve Teo	Synergy	
Christopher Alexander	Small-Use Consumer Representative	
Jacinda Papps	Energy Producer	
Adam Stephen	Energy Producer	
Paul Arias	Energy Producer	
Patrick Peake	Energy Retailer	
Tim Edwards	Energy Retailer	
Geoff Gaston	Energy Retailer	
Rajat Sarawat	Economic Regulation Authority (observer)	
Peter Huxtable	Contestable Customer	
Other attendees	From	Comment
Rick Dolling	AEMO	Proxy for Amy Tait
Mark McKinnon	Network Operator	Proxy for Zahra Jabiri
Dora Guzeleva	EPWA	MAC Secretariat
Laura Koziol	EPWA	MAC Secretariat
Sean McAvoy	EPWA	MAC Secretariat
Bronwyn Gunn	EPWA	Presenter for Item 5(b)
Nicola Falcon	AEMO	Observer for Item 8 10:50am - 11:24am
Apologies	Representing in MAC	Comment
Noel Schubert	Small-Use Consumer Representative	
Amy Tait	AEMO	
Zahra Jabiri	Network Operator	
Noel Ryan	Minister (observer)	

## **1. WELCOME**

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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 members, inviting members to bring to her attention any issues should they arise.

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

## **2. MEETING APOLOGIES AND ATTENDANCE**

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The Chair noted the attendance as listed above.

## **3. MINUTES OF MEETING 2024\_09\_05**

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The 5 September 2024 meeting minutes were approved out of session and published on the Coordinator's website on 1 October 2024.

## **4. ACTION ITEMS**

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The Chair noted the Action Items and the paper was taken as read.

## **5. UPDATE ON WORKING GROUPS**

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### **a) AEMO Procedure Change Working Group (APCWG)**

Mr Dolling noted that since the preparation of the paper, two WEM Procedures commenced on 15 October 2024:

- Direction of Registered Facilities in Scarcity Conditions; and
- Dispatch Compliance.

Mr Dolling also mentioned that the next meeting of the APCWG is on 24 October 2024 to discuss four WEM procedures, two of which concern the proposed Frequency Co-optimisation Essential System Services (FCESS) Cost Review Amendments.

- Mrs Papps considered that it is important for AEMO to progress the Low Reserve Condition Declaration Procedure and maybe even the Medium-Term Projected Assessment of System Adequacy (PASA) and the Short-Term PASA Procedures. Mrs Papps asked whether:
  - AEMO plans to consult on the Low Reserve Condition Declaration Procedure before the Christmas period; and
  - the priority for some WEM Procedures can change to accommodate the important ones, noting that the Distribute Energy Resources (DER) Procedures could likely be rescheduled because it is unlikely DER will enter the market soon; and
  - AEMO could work out if there was enough Flexible Capacity in the WEM without implementing certification for Flexible Reserve Capacity because the certification might be a lot of work for AEMO.

Mr Dolling responded that AEMO:

- is considering the Low Reserve Condition Declaration Procedure a priority but that this is dependent on the Medium-Term (PASA) Procedure that is still under development due to limited availability of the required subject matter experts; and
- will consider reprioritising the schedule.

Ms Guzeleva added that several aspects of the WEM Investment Certainty Review, including price guarantees, relate to Flexible Capacity Credits and highlighted the need for the Flexible Capacity Price Curve. However, the timeframes for implementing the different aspects of the mechanism are still under consideration.

***Action: AEMO to provide an update on the WEM procedure for low reserve condition declarations before the next MAC meeting***

**b) Update on the Power System Security and Reliability Standards Working Group**

The Chair noted the updates, and the paper was taken as read. She asked Ms Guzeleva and Ms Gunn to provide the MAC with the latest update from the Power System Security and Reliability Standards Working Group (PSSRSWG).

Ms Gunn noted that the PSSRSWG met on 10 October to discuss the proposed System Strength framework, network ride through requirements and some PSSR related issues identified as part of the Western Power Technical Rules review.

Ms Gunn presented slides 3 – 13 and requested further comments from the MAC.

Ms Gunn presented slide 14 – Future generation outlook. She noted that another key aspect under consideration is the need for greater collaboration between Western Power, AEMO, and EPWA on forecasting, which is the subject of another proposal in the PSSR project.

Ms Gunn presented slide 15 – Future generation outlook – PSSRSWG feedback. She clarified that the input from individual members is listed on the slide, though it may not necessarily reflect the entire PSSRSWG's view on the matter.

Ms Gunn noted that the first dot point on the slide should read “the future generation outlook” and not proposed centralised planning/investment, and cost recovery framework.

- Mr Huxtable noted that currently, the forecasting process such as the WoSP takes two to three years, yet updates are being proposed to being made annually. He asked whether this proposal is, therefore, realistic.

Ms Guzeleva noted that this proposal is more aligned to the ESOO or Transmission System Plan, but that more coordination between the parties responsible for forecasting is required to ensure assumptions are more consistent across the forecasts that drive system and network investment.

Ms Gunn noted that the recommendations have been developed in close consultation with AEMO and Western Power, and that EPWA has confidence that the proposal is realistic.

- Mr Peake noted that accounting for the expected location of generation is critical to identifying where system strength issues might be, but expressed concern that assuming a clear view of generation location over the next decade is misleading, since neither generation nor transmission capacity locations are fully known. He noted that this uncertainty creates a challenging loop: Western Power seeks input on generation sites, yet generation location depends on transmission infrastructure.

Ms Guzeleva noted that knowledge of which plants will retire provides a valuable starting point.

The Chair noted the ISP approach in the National Electricity Market (NEM), which involves AEMO making assumptions about transmission and generation locations for optimal planning. She asked Mr Peake whether there are features in Western Australia that complicate this coordinated approach.

- Mr Peake responded that:
  - The network in the SWIS appears to be full – there is nowhere you can locate a new facility without having to do network upgrades.
  - although the ISP suggests new transmission lines, no commitment exists, raising doubts about building these lines.
  - without a government directive to build new network capacity, there's little progress.
  - caution is advised with relying too heavily on 10-year forecasts.

The Chair acknowledged that the plan is intended to provide guidance, but generally it is acknowledged that plans and forecasts rarely unfold exactly as outlined.

Ms Guzeleva noted that under this proposal, the forecast will set a requirement for system strength. She pointed out that:

- the retirement of plants could lead to immediate concerns, particularly in weakly interconnected areas like Kalgoorlie.
  - accurate forecasting of potential issues is essential, as these decisions have financial implications.
- Mr Peake agreed with this.
  - Mr Edwards discussed the importance of leveraging synthetic inertia for grid stability. He argued that:
    - with 1.3 gigawatts of battery capacity under construction, enabling/requiring software to provide synthetic inertia should be a feature in the SWIS.
    - synthetic inertia is necessary to replace synchronous inertia and ensure grid reliability and is an essential requirement for connection.
    - This issue is not a WEM Rules framework/cost recovery issue, it is a connection standards issue.

Ms Gunn explained that the proposed User Facility standards framework, as part of the PSSR Standards Review, will consider the appropriate technical standards for Grid Forming Inverters. She clarified that this flexible, solution-agnostic approach aligns with the principles set out by Mr Edwards, and agreed that the framework should consider settings adjustments as viable solutions, rather than defaulting to new equipment investments.

Ms Guzeleva added that the Technical Rules and the WEM Rules will be consolidated into the ESMR.

Ms Gunn presented slide 16 – Maintaining minimum fault level requirements and 10-year forecast of fault level by transmission node.

- Mr Alexander emphasised that a competitive, collusion-free procurement process is essential. He noted that:
  - from a smaller consumer view, proactive, long-term investments heighten affordability risks, so balancing efficiency with cost is key.
  - the framework must facilitate a clear, competitive process.
- Mr Stephen referred to the second sub dot point on the slide, asking who will bear the costs for facilities meeting new requirements and how cost distribution will be managed fairly within the proposed framework.

Ms Guzeleva noted that many of these solutions often come with minimal or no added cost. She clarified that any solution involving significant costs should go through the procurement process to ensure transparency and competitiveness.

- Mr Stephen noted there is the potential for these changes to be costly.
- Mr Arias emphasised that changes to firmware or processes always incur costs, even if they are not part of a new investment. He stressed that it's essential for these costs to be properly accounted for and managed.

The Chair summarised the view of the MAC as follows:

- it is important to focus on finding low-cost solutions through a competitive process whenever possible.
- It is important not to assume there is a "no-cost" solution.

Ms Gunn presented slides 18 – 19 – The need for an investment framework for system strength beyond maintaining the minimum fault level requirements and PSSRSWG feedback.

- Mrs Papps emphasised the need to learn from the Rate of Change of Frequency (RoCoF) process. She noted that:
  - most scheduled generators have been unable to prove their eligibility for RoCoF accreditation with AEMO due to unachievable accreditation requirements.
  - there must be accurate forecasting and robust accreditation process for any centralised system strength framework to avoid adding unnecessary costs.
- Mr Edwards agreed that the current RoCoF process has fundamental flaws, stating that everyone is nominated as a RoCoF causer unless proven otherwise which is leading to unnecessary procurement of RoCoF, and therefore costs, on the basis on a flawed requirement.

The Chair acknowledged the issue being raised, and asked what lessons could be applied to the proposed framework to avoid the same mistakes.

- Mrs Papps noted that:
  - if a generator has no issues under its Generator Performance Standards (GPS) and meets technical compliance, it seems unreasonable to face an additional requirement (ROCOF accreditation) that's difficult to meet or prove.
  - the key lesson is to avoid repeating the same mistakes with the proposed system strength framework. She emphasised the need to ensure that both customers and generators are not unfairly burdened by costs in future market frameworks involving centralised procurement and cost recovery.

The Chair asked whether the issue at hand pertains to the WEM Rules or Procedures.

- Mr Edwards and Mrs Papps agreed that it is an issue with the Procedures and how the rules are applied.

Ms Guzeleva responded that, while setting the service level is critical, cost recovery is a separate issue, and both need to be carefully considered. If facilities are exempted from paying for services like RoCoF and system strength, the burden largely falls on residential customers.

- Mr Dolling acknowledged the concern around both:
  - the RoCoF ride-through accreditation process, specifically the difficulty in demonstrating RoCoF ride-through capability; and
  - the RoCoF safe limit which sets the requirement in the market.
- Mr Dolling noted that the RoCoF safe limit is not set on the basis of who is accredited but agreed that without facilities being able to be accredited there will always be an over-procurement.
- Mr Peake noted that:

- there is not always a first mover advantage and that, if the first mover has to put in enough equipment to bolster system strength, this may allow others to free ride; and
  - community preference has driven the shift to more inverter- based resources and, therefore, it should wear the cost of that through network charges.
- Mr Edwards reiterated that this issue should be addressed by setting clear technical standards from the start and that this would prevent such challenges from arising.

The Chair summarised the view of the MAC as follows:

- there is no fundamental disagreement with the proposed centralised planning, investment, and cost recovery framework itself; and
- lessons from the RoCoF experience highlight aspects that should be avoided in this proposed framework's implementation.

Ms Gunn presented slide 21 – Network ride through requirement.

- Mr Stephen expressed support for aligning the approach but raised a question about whether any deficiencies in the network, particularly related to ride-through capability, have been addressed.

Ms Gunn clarified that there aren't specific case studies or examples guiding this approach. She noted that:

- the aim is to integrate transmission-connected generators and other facility types under one consistent framework, as part of the new ESMR; and
- the intent is to ensure uniformity across all facilities unless there's a compelling reason otherwise.

Ms Gunn presented slide 23 – Western Power Technical Rules Review identified issues.

- Mr Stephen sought clarification on whether the document is intended to be specific to Western Power or applicable to network service providers more generally.

Ms Gunn responded that the ESMR is expected to address the network service provider role broadly, but currently, Western Power is the sole provider in this context.

## **6. UPDATE ON THE PROPOSED CHANGES TO THE ERA'S WEM PROCEDURES**

Mr Sarawat advised that:

- a stakeholder workshop was held on 19 September 2024;
- the Economic Regulation Authority (ERA) received formal submissions which are under consideration.
- the ERA expects to publish the Monitoring Protocol Procedure in early November and the Triggering of the SESSM and Portfolio Determination Procedures by mid-November.
- since the ERA used the draft FCESS Cost Review Amendments to develop its draft Offer Construction guidelines, a second round of consultations may be necessary. If this occurs, the ERA will likely consult in November and implement changes by 1 February 2025.

The Chair asked if a summary of the main issues from the stakeholder workshop could be provided.

Mr Sarawat highlighted that the main issues discussed at the workshop were:

- the proposal to exclude Contingency Reserve Raise (CRR) cost as an efficient variable cost from energy offers; and
- the requirements for independent expert advice.

Mr Sarawat acknowledged that the ERA's paper could have better explained the changes to CRR.

- Mr Stephen asked when stakeholder submissions will be published.

Mr Sarawat answered that the ERA expects to publish stakeholder submissions within the next few days.

- Mrs Papps asked if there would be an implementation period for the Offer Construction Guideline as 20 November 2024 is approaching soon.
- Mr Arias agreed with Mrs Papps, stating that if independent advice was required, it would take time to implement.

Mr Sarawat responded that this would be considered.

- Mr Arias asked if there was any update on implementing the FCESS Cost Review Rules.

Ms Guzeleva advised that EPWA had made some changes to the FCESS Cost Review Amendments to address stakeholder submissions. She noted that the finalised FCESS Cost Review Rules were with the Minister for Energy (Minister) for his approval.

Ms Guzeleva further noted that no significant changes had been made to the aspects covered by the ERA's guidelines. However, it is the ERA's decision whether a second round of consultation is needed.

## **7. WEM EFFECTIVENESS REPORT – UPDATED SCOPE OF WORK**

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The paper was taken as read and comments were sought from the MAC.

- Mrs Papps considered it unnecessary to review the FCESS market as that was likely already covered by the FCESS Cost investigation. Mrs Papps suggested that:
  - the FCESS markets should only be assessed for the time after the 20 November 2024 changes, if timing permits; or
  - the FCESS markets should be assessed at a later date.

Ms Guzeleva responded that:

- the FCESS cost changes will be closely monitored but the report should be clear about the changes made as a result of the FCESS Cost Review.
- due to the Western Australian election, it is unlikely anything will be published during the caretaker period. Therefore, EPWA will likely present a draft report to the MAC in March 2025.
- the time constraint may prevent some content from being included in the report.
- Mr Peake suggested to include investigation of whether targeting specific technology types, like under the Commonwealth's Capacity Investment Scheme (CIS), would improve cost efficiency in the WEM.

Ms Guzeleva responded that the Reserve Capacity Mechanism, through the capability classes, already values the generation types differently.

Ms Guzeleva and Mr Peake agreed to further discuss this issue offline.

- Mr Alexander sought clarification if market design inefficiencies would be assessed against the State Electricity Objective, which includes emissions.

Ms Guzeleva responded that the Scope of Work will be amended to clarify that all assessments will be against the State Electricity Objective.

- Mr McKinnon noted that some of the content listed for the review of the effectiveness of the Network Operator, like connection times, are not specified function under the WEM Rules but are related to the Access Code. He sought an explanation for their inclusion.
- Ms Guzeleva answered that this content was included in response to stakeholder feedback.

## **8. RULE CHANGE PROPOSAL RC\_2024\_01 – AEMO’S ALLOWABLE REVENUE FRAMEWORK**

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The Chair advised that Mr Edwards and Mr Arias wrote to the Chair asking her to convene the MAC to discuss the Rule Change Proposal.

- Mr Edwards asked Mr Sarawat if he agreed with the implication in AEMO’s Rule Change Proposal that the ERA does not understand the information provided by AEMO and cannot provide the relevant analysis.
- Mr Sarawat answered that the information provided makes it difficult for the ERA to assess AEMO’s allowable revenue.
- Mr Edwards further stated that AEMO’s budget should remain subject to regulation by the ERA and that the Rule Change should be rejected. He noted that:
  - Market Participants and Western Power operate in the same dynamic market as AEMO. Western Power has to deliver on its plans and Market Participants must plan investments at least 2.5 years in advance, and they have to accept any outcome from those decisions;
  - if frequent rule changes by EPWA are causing changes to AEMO’s budget then this should be accounted for in the oversight by the ERA;
  - Market Participants will not sour any relationship with AEMO by questioning its budget. Even if Market Participants did raise concerns, they lack any leverage to influence changes; and
  - holding AEMO accountable if it fails to deliver would likely involve civil proceedings. However, AEMO will recoup any losses through the market.
- Mr Arias stated that the Rule Change Proposal should be rejected. He noted that:
  - In the budget process for AEMO’s 2024-25 Budget for the National Electricity Market only one submission was made on AEMO’s proposed draft. In that submission, the Australian Energy Council requested information about the allocation of labour costs. AEMO rejected this request. This highlights the practical and transparency issues with the proposed framework.
  - The proposed framework requires effort by Market Participants, which would increase their costs, so there are likely no overall cost savings.
  - AEMO’s past initial budgets lacked transparency and, without regulatory oversight, there is no obligation for AEMO to provide the necessary information.
- Mr Arias added that the 31 March deadline for the current Allowable Revenue regulatory framework should be extended, if needed, to allow for a review of the existing framework maintaining the regulatory oversight by the ERA.
- Mr Alexander considered that there is no case to remove the oversight of the independent regulator and noted that:
  - market fees are passed through to customers, so small-use customers rely on the independent regulator to account for the long-term interest of consumers; and
  - the ERA’s scrutiny of AEMO’s costs and plans provides transparency, thereby, increasing market confidence and trust in AEMO.



- Mr Alexander agreed that there is a case for some change. He supported Mr Arias suggestion to pause some of the budget processes to allow more time to consider the required solution.
- Mrs Papps agreed that removing the independent regulator places all the burden on Market Participants who are not resourced to analyse AEMO's budget. She agreed that there is a case for some change but that independent oversight must be retained.
- Mr Peake did not support the Rule Change Proposal. He agreed that change is necessary, but that oversight through the ERA should be kept as Market Participants do not have the ability to analyse AEMO's budget. He noted that AEMO's recent short notice in-period adjustments have not instilled trust about its budget being efficient, reliable, or believable and AEMO should show how it has changed to improve confidence in its submissions.
- Mr Huxtable stated that contestable customers are not set up to scrutinise AEMO's budget, so would need to create working groups and/or hire consultants to provide any input.
- Mr Stephen agreed that there needs to be some independent oversight to ensure accountability. He acknowledged that there might be a case for some change.
- Mr Gaston stated that AEMO should not be allowed to determine its own budget and that some level of ERA oversight is required.
- Ms Teo agreed with the overall opinion that the independent oversight is needed and noted that Synergy would make a formal submission.
- Mr McKinnon stated that, as a Network Operator representative, he had been advised not to comment on the proposal.
- Ms McKenzie thanked the MAC members for their comments and noted that:
  - while there is justification for some change, the Rule Change Proposal might not be the right model; and
  - AEMO experiences genuine issues with the current framework, having to make in-period submissions every year, and is open to working constructively with the MAC to identify palatable changes.

The Chair summarised the view of the MAC as follows:

- While there is support for some changes to the current allowable revenue framework, there is a strong desire to maintain oversight by the ERA because:
  - Market Participants lack leverage over AEMO and the necessary resourcing;
  - the ERA scrutinises the cost allocation and labour attribution.
- Members have raised the following issues for improvement:
  - AEMO's budget forecasting and information can be improved.
  - AEMO needs to demonstrate credibility as a requirement to revisit the proposal.

The Chair asked if the MAC wanted to provide formal advice to the Coordinator or whether the minutes would suffice.

- Mr Arias stated that, as the Rule Change Proposal is progressing through a formal process, the MAC should provide formal advice rather than relying on the minutes.

The MAC members agreed with Mr Arias.

The Chair stated that she will prepare a draft advice and circulate it for endorsement by the MAC to be provided to the Coordinator before the end of the first submission period on 6 November 2024.

- Mr Edwards asked how the ERA's difficulties in analysing AEMO's budget information would be addressed.

The Chair asked if the ERA would provide further insight to the Coordinator on the difficulties analysing AEMO's revenue submissions.

Mr Sarawat noted that these issues had been pointed out in the ERA's report and noted that he is willing to discuss this further.

## **9. MARKET DEVELOPMENT FORWARD WORK PROGRAM**

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The paper was taken as read.

## **10. OVERVIEW OF RULE CHANGE PROPOSALS**

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The paper was taken as read.

## **11. MAC MEETING SCHEDULE FOR 2025**

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The Chair asked if there were any issues with the proposed meeting dates.

- Mrs Papps noted that the proposed 30 January 2025 is close to the Australian Day public holiday, which may result in people being away. She suggested rescheduling it to the first week of February.

Ms Guzeleva advised an alternative date will be investigated but noted that meeting dates are being planned to avoid caretaker period.

- Mr Peake asked if additional meeting dates are required to assist with the expected work program.

The Chair explained the MAC meets every 4-6 weeks and adding another meeting date can create tight timeframes, making it difficult to accommodate extra meetings.

The Chair summarised that the MAC endorsed the proposed schedule but that the secretariat will consider rescheduling the 30 January 2025 meeting.

***ACTION: EPWA to investigate rescheduling the proposed 30 January 2025 meeting date***

## **12. GENERAL BUSINESS**

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- Mr Stephen asked whether all MAC member terms were set to expire on 1 February 2025 and if members would need to reapply.
- Mr Arias noted that some members were appointed for 12-month terms in 2024 due to the ongoing MAC Review.

Ms Guzeleva advised that EPWA would provide an update on the matter at the next MAC meeting.

The Chair noted that the next MAC meeting would be held online on 28 November 2024.

***ACTION: EPWA to provide an update on MAC members' expiring membership terms.***

**The meeting closed at 11:30am.**