

Independent Market Operator Reserve Capacity Mechanism Working Group

Minutes

Meeting No.	2	
Location:	IMO Boardroom Level 3, 197 St Georges Terrace, Perth	
Date:	Tuesday 27 March 2012	
Time:	Commencing at 2.00pm – 5.00pm	
Attendees		
Allan Dawson		Chair
Suzanne Frame		IMO
Brendan Clarke		System Management
Andrew Sutherland		Market Generator
Ben Tan		Market Generator
Shane Cremin		Market Generator (Via phone)
Brad Huppertz		Market Generator (Verve Energy)
Amanda Rudd		Market Customer (Proxy)
Patrick Peake		Market Customer
Steve Gould		Market Customer
Stephen MacLean		Market Customer (Synergy)
Andrew Stevens		Market Customer/Generator
Jeff Renaud		Demand Side Management
Geoff Down		Contestable Customer
Justin Payne		Contestable Customer
Paul Hynch		Observer (Office of Energy)
Wana Yang		Observer (Economic Regulation Authority)
Additional Attendees		
Mike Thomas (The Lantau Group)		Presenter
Aditi Varma		Minutes
Fiona Edmonds		Observer

Item

Item	Subject	Action
	<p>The Chair highlighted that in 2008-09, the market faced shortages and the IMO procured Supplementary Reserve Capacity (SRC).</p>	
	<ul style="list-style-type: none"> <li data-bbox="407 260 1235 541">• Mr Thomas talked about the analysis on the indicative value of lost load. He noted that the analysis showed that the difference between the administrative value and the economic value of capacity credits was high. On this point, Mr Huppertz noted that the Planning Criterion is not only based on the probability of exceedence, the market also places high value on unserved energy. Mr Thomas acknowledged that the current analysis did not delve deeper into that issue. However, he noted that the issue around value creation in a few number of hours remained. <li data-bbox="407 562 1235 1060">• On the issue of excess capacity, Mr Sutherland highlighted that it was important for the group to understand the make-up of the capacity surpluses. Mr Stevens and Mr MacLean noted that this was an important question to consider. Mr Thomas observed that in a pure market-based mechanism, it is never possible to know what caused the problem and only the effects are visible. Mr Peake noted that in a market-based scenario, older, inefficient plants might be retired whereas in RCM, older plants continued to produce power. Mr Thomas noted this point. He added that the causes of excess capacity could potentially change in the future and therefore, it would be more useful to think of the problem as active or passive behaviour of participants. Active behaviour is characterized as participants actively making commercial decisions in the market and passive behaviour is characterized as participants' exposure to decisions made by other stakeholders. <li data-bbox="407 1081 1235 1333">• Discussion ensued on uncontracted Capacity Credits. Mr Sutherland mentioned that large OCGT plants do not generally rely on the RCM to be built because they have large capital costs. In his opinion, a lot of the uncontracted Capacity Credits present in the market might be supplied by projects with low capital costs or low debt-to-equity ratios. He added that retailers would prefer contracting for the long term to match their capacity. 	

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	possible if the proportion of baseload generation, mid-merit and peaking generation capacity existed in the shape of a pyramid.	

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reductions introduced by the SOO.

Action Points:

- *The IMO to conduct analysis on the composition of excess capacity in the RCM and provide updates at the April RCMWG meeting.*
- *Mr Thomas to conduct further analysis on his recommendations for the RCM and provide updates at the April RCMWG meeting.*
- *Mr MacLean to circulate his analysis on costs of excess capacity to the market among RCMWG members.*