

## Reserve Capacity Mechanism Working Group

### Minutes

<b>Meeting No.</b>	7
<b>Location:</b>	IMO Boardroom Level 17, 197 St Georges Terrace, Perth
<b>Date:</b>	Thursday 13 September 2012
<b>Time:</b>	Commencing at 2.10pm – 5.20pm

Attendees	Class	Comment
Allan Dawson	Chair	
Suzanne Frame	IMO	
Andrew Sutherland	Market Generator	
Brad Huppatz	Market Generator (Verve Energy)	
Ben Tan	Market Generator	Left at 4.40 pm
Shane Cremin	Market Generator	
Wendy Ng	Market Customer	
Geoff Gaston	Market Customer	Proxy
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	
Brendan Clarke	System Management	
Wana Yang	Observer (Economic Regulation Authority)	
Paul Hynch	Observer (Public Utilities Office)	Left at 5:00 pm
Apologies	Class	Comment
Patrick Peake	Market Customer	
Also in attendance	From	Comment
Richard Tooth	Presenter (Sapere Research Group)	
Mike Thomas	Presenter (The Lantau Group)	
Aditi Varma	Minutes	

Cunningham		
George Sproule	Observer	

Item	Subject	Action
1.	<p><b>WELCOME AND APOLOGIES / ATTENDANCE</b></p> <p>The Chair opened the seventh meeting of the Reserve Capacity Mechanism (RCM) Working Group (RCMWG) at 2:10pm.</p> <p>The Chair welcomed the members in attendance and noted Mr Patrick Peake's apology.</p>	

**2. MINUTES ARISING FROM MEETING 5**

The following amendments were noted:

- On page 5, Mr Brad Huppatz requested the following change:

*Mr Brad Huppatz noted Verve Energy's support for the dynamic regime but added that ~~with~~ increasing risk and uncertainty must be balanced by a lowering of expected refunds ~~a Market Participant's exposure in the market will increase.~~*

- On page 8, members asked for the following change:

*The Chair noted that the members agreed that the proposed approach seemed the most efficient and feasible solution in the short-term.*

Discussion ensued among members on decisions made on the Reserve Capacity Price (Work Stream 1) in the previous meeting. The following points were noted:

- Mr Ben Tan and Mr Stephen MacLean noted that the ensuing email conversations after the last meeting indicated that a common understanding on the issue of Reserve Capacity Price had not been reached and that the effects of the recent reduction in the

- Mr Thomas observed that it was important that the members divide the two questions: does the proposed solution improve the current situation; and whether the proposed solution is the most suitable option that the members would like to progress. Mr Cremin noted that the working group needed a better understanding of how the proposed solution would deliver in the market. Mr MacLean observed that in the past, other more complicated price reduction methodologies had been used to deal with the excess capacity problem. He noted that if a broader reform of the Reserve Capacity Mechanism was the issue to be addressed, it might be useful to give some thought to whether the RCMWG was the appropriate group to deal with the issue.

She noted that Action Item 2(The IMO to include information on the cost effectiveness of proposed solutions or harmonisation) was in progress.
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**4. INDIVIDUAL RESERVE CAPACITY REQUIREMENT (IRCR)  
(WORK STREAM 4)**

The Chair invited Dr Richard Tooth to present his paper.

The following points of discussion were noted:

- There was discussion among members on non-temperature dependent loads and their behaviour in the market. Mr Geoff Gaston observed that the IRCR could not affect market behaviour because the Trading Intervals used for IRCR calculations are not known by Market Customers even 6-8 months after a peak temperature event. If industrial loads wanted to take advantage, they would have to start reducing their consumption each time the temperature went above 35 degrees, because they would never know for sure what peak intervals are being used for the IRCR calculation. This is generally not possible for industrial loads. Mr MacLean added that whereas in the past, the peak event used to occur in late February, now temperatures are high almost throughout the summer period, implying that customers would have to try and reduce their demand over the entire summer period because they do not have any indication of a peak event beforehand. Discussion ensued on the potential of the peak moving more towards occurring during the evening as more solar PV cells

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IRCR, Mr Renaud asked for clarification on the definition of gaming. He added that in his view gaming, to the extent that RD and IRCR intervals overlap, would mean a customer requesting a higher RD in an interval because of a maintenance issue while simultaneously not accepting the lower IRCR adjustment. He added that his position on the issue was that the RD and IRCR intervals had no interaction with each other because they were intended for different purposes. He further added that he was supportive of a change that removed the potential for double benefits whenever there was overlap between RD and IRCR intervals. Mr Renaud added that there should be a provision in the Market Rules for adjustment to the IRCR when the Trading Intervals coincide with the RD Trading Intervals.

- In response to proposal 4 (i.e., consideration be given to limiting the modifications to load values used in the RD calculation whereby the modified RD values cannot exceed the Associated Load's IRCR Calculation of contribution to the system peak load) Mr Renaud noted that the basis for comparison with RD should be the associated load's peak load.

artificial linkage that does not relate to what the market is paying for. Mr MacLean used the example of generators being rated for their effectiveness at an ambient temperature of 41 degrees whereas RD was calculated across four summer months, not the absolute peak days. He added that the equivalent would be to relate the RD to the 12 Trading Interval

variation in load is considerably less and the need for substantial reserve margin does not exist. Mr Thomas responded that this should be one of the questions to consider.

- There was some discussion among members on the effect of dynamic refunds on the energy prices and that ultimately the impact of dynamic refunds may get built into bilateral contracts.
- Discussion ensued on the slope of the refund exposure. Mr Thomas noted that the proposed option for consideration of recycling of refunds would reduce the burden of penalties by giving both a reward and a penalty simultaneously. Mr Cremin noted that the recycling approach also reinforced the value proposition of different facilities. He observed that ideally an inferior generator should be liable to pay more refunds. This would further incentivise a mix of reliable, more efficient plants. Mr Stevens added that the incentive or the reward should be there to incentivise generators to run. His opinion was that at the moment, generators react to the high risk in the market associated with refund exposure. Mr MacLean noted that the real test of the implementation of a dynamic