



Reserve Capacity Mechanism Working Group

Minutes

Meeting No.	9
Location:	IMO Boardroom Level 17, 197 St Georges Terrace, Perth
Date:	Thursday 22 November 2012
Time:	Commencing at 12.30pm – 5.45pm

Attendees	Class	Comment
Allan Dawson		

Andrew Stevens	Market Customer/Generator	
Geoff Gaston	Market Customer	Proxy
Jeff Renaud	Demand Side Management	
Geoff Down	Contestable Customer	
Brendan Clarke	System Management	
Wana Yang	Observer (Economic Regulation Authority)	
Lisa Taylor	Observer (Public Utilities Office)	
Apologies	Class	Comment
Patrick Peake	Market Customer	
Justin Payne	Contestable Customer	
Paul Hynch	Observer (Public Utilities Office)	
Also in attendance	From	Comment
Wayne Trumble	Observer (Griffin Energy)	
John Rhodes	Observer (Synergy)	
Fiona Edmonds	Observer (Alinta)	
Mike Thomas	Presenter (The Lantau Group)	
Dr Richard Tooth	Presenter (Sapere Research Group)	
Aditi Varma	Minutes	

Greg Ruthven	Observer (IMO)	
Natasha Cunningham	Observer (IMO)	

Item	Subject	Action
1.	<p>WELCOME AND APOLOGIES / ATTENDANCE</p> <p>The Chair opened the ninth and final meeting of the Reserve Capacity Mechanism (RCM) Working Group (RCMWG) at 12:30pm.</p> <p>The Chair welcomed the members in attendance and noted apologies from Mr Patrick Peake, Mr Justin Payne and Mr Paul Hynch. He acknowledged observers present from Griffin Energy, Synergy and Alinta.</p>	

2. MINUTES ARISING FROM MEETING 8

The following amendments were noted:

On page 6, Ms Wana Yang requested the following change:

Ms Yang mentioned that ~~it was not~~ the quantity of excess capacity ~~that~~ was a concern. The concern stemmed more from an economic efficiency perspective because excess capacity indicated inefficient over-investment. She also noted that the Shared Capacity Cost was always borne by the Market Customers, irrespective of whether there was excess capacity or a shortfall.

On page 7, Mr Brendan Clarke requested that the minutes reflect that no agreement was reached among working group members on the Reserve Capacity Price proposal. The Chair noted that such a change was not required as the minutes appropriately reflected that members had discussed the proposal. The minutes were silent on whether any agreement was reached. Mr Clarke then requested that



within minutes. In response to a query from Mr Tan, Mr Renaud noted that the capability of DSPs to respond within minutes varies across Loads, and reducing the two hour notice of dispatch would create a significant impact. Mr Gaston questioned why if it was indeed possible for DSPs to respond within minutes, they received the two hour notice of dispatch period from System Management rather than receiving a Dispatch Instruction, akin to what generators receive. He further added that managing the dispatch of different DSPs by giving them adequate notice should be the decision of the business owner, and considered that this should occur in the Balancing Merit Order. Mr Renaud argued that managing the dispatch of different DSPs in the current market would be practically impossible because currently all DSPs bid in at the same price and a random number generator is used for dispatch. Ms Frame noted that during Market Rules Evolution Plan meetings, votes were canvassed on the proposal for including DSPs in the Balancing Market; however there was no desire to progress that proposal at that time. Ms Frame queried members whether the priority of the proposal for DSM to participate in the Balancing Market had now changed. Mr Gaston considered that the question was whether DSM was being harmonised to perform like a generator in terms of dispatch. Ms Frame noted that the philosophical discussion around what was intended by “harmonisation” of demand and supply side sources of capacity occurred early in the working group meetings, and explained that the intent was not to make them identical, rather to more closely align their performance requirements to level the playing field.

During discussion on Proposal 1¹; Mr Stevens noted that the decision for using any amount of DSM should be solely System Management’s responsibility and that it should be able to justify that decision accordingly. Mr Shane Cremin and Mr Brad Huppertz also agreed with this point. Mr MacLean observed that System Management might not be comfortable with making a decision which can be open to criticism. Dr Gould observed that the Power System Operation Procedure (PSOP) on Dispatch already included powers for System Management to issue Dispatch Advisories when it considered that the Operating State had changed from Normal to High-Risk. Having issued that Dispatch Advisory, System Management had unrestricted powers to use whatever it considered suitable. He further added that it seemed that the proposal would make an incremental adjustment on protections which already existed. Dr Tooth mentioned that this recommendation was not expected to change current behaviour.

On Proposal 2²; members sought some clarification on whether DSPs could be dispatched as a priority by using the consumption decrease price. Mr Gaston noted that the proposal seemed to add another layer of complexity when in fact tie-breaking rules already existed. The Chair clarified that this was beyond the Balancing Merit Order and that a random number generator could

¹ Proposal 1: A rule is established to ensure that the DSM quantity dispatched is not more than can

not be integrated into this part of the system. Mr Tan queried if self-dispatches by DSPs could be considered when counting the most recent dispatch. In response to this query, Dr Tooth clarified that only dispatches conducted by System Management would be counted. Mr Renaud and Mr Clarke discussed whether System Management could conduct partial dispatches of DSPs for example, System Management only dispatching a DSP for a fraction of the total amount it had initially bid in. The Chair noted that clarity on this action item would be sought by the IMO.

Dr Tooth noted that the discussion indicated that members agreed that rank based on load size needed to be removed and the point of contention was whether dispatch should instead be conducted on rank-based-on-time. Ms Wana Yang queried whether this logic should also exist for generators to facilitate consistency. In response, the Chair and other members noted that this would not be possible because generators are allowed to bid in different offer tranches at different values.

Discussion ensued on the possible scenarios in which DSPs would likely be dispatched. Dr Tooth noted that there would need to be an unlikely disaster scenario for all of the DSPs to simultaneously get dispatched. Mr John Rhodes argued that the proposal placed an unlimited liability on Market Customers who are contracting for an unknown level of risk. He queried as to why the burden of a disaster scenario, which is the principle behind the design of the Reserve Capacity Mechanism, should be placed on DSPs. Discussion ensued on the risk of unlimited dispatch for

5. AGENDA ITEM 6: Dynamic Refunds Mechanism

The Chair invited Mr Mike Thomas to make his presentation. The following discussion points were noted:

On the topic of recycling, Mr MacLean opined that the benefit being accorded to better performing resources had not been quantified and thus it was difficult to ascertain how the recommendations would improve the current situation.

On the topic of recycling refunds by either availability versus dispatch, Mr Cremin disagreed with Mr Thomas that rebates should be based on availability. He noted that in this market

reflective of system conditions. He added that it also had the extra benefit of incentivising better performing generation assets.

Mr MacLean observed that the question for generators to consider was that if the recycling of refunds was implemented, how the generators would share the money between them.

The Chair asked members if the proposal should be progressed. Mr MacLean noted his objection to the proposal on the grounds that some bilateral contracts that were already in place would need to be re-written. Mr Gaston noted his support for Option C³ as long as the maximum refund factor remained at 6 and did not increase any further. However, he did not agree with the recycling mechanism as he was not convinced as to how this would translate into reduced cost for retailers. Mr Clarke noted his support for the recycling mechanism but added that the sharing of the pool of money between generators and retailers needed to be further clarified. He also noted his support for the option of recycling refunds to generators based on dispatch rather than availability because for System Management, a generator that may be able to start within minutes would be preferable to the one which may take hours. The Chair noted that the recommendations will be put forward to the IMO Board with an acknowledgement of the objections raised by some MAC members. He also added that the recommendations would be developed into rule changes and the rule change process would also offer members time to register their objections.

raised by some MAC r

Action Item: The IMO to make recommendations to the IMO Board on the dynamic refunds regime whilst acknowledging the objections raised by some MAC members.

should not bear the cost of that additional capacity.

Mr Gaston observed that the Reserve Capacity Mechanism was a prescribed process and was never intended to provide a market based outcome. He added that the MRCP was known two years in advance and that acted as a signal for the market to bring in additional capacity. Discussion ensued among members on what

	<p>his view that the MRCP and the sliding scale should be delinked from each other. He supported the idea of implementing the change because it was a suitable way forward without completely changing the market. Ms Lisa Taylor asked if more analysis could be made available before this was progressed to the rule development stage. Mr Gaston did not support the proposal. Dr Gould observed that under the proposed mechanism, prices would rise sending a strong signal to retailers to contract bilaterally.</p> <p>The Chair offered that the IMO would conduct more analysis, including a proposed transition path, and send it via email to gauge MAC members' support.</p> <p><i>Action Item:</i></p> <p><i>The IMO to conduct more analysis on Reserve Capacity Price, including a proposed transition path and send it via email to canvas MAC members' support.</i></p>	IMO
	<p>CLOSED</p> <p>The Chair thanked the members and declared the meeting closed at 5.45 pm.</p>	