

Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	11 October 2022
Time:	9:00am –11:04am
Location:	Videoconference (Microsoft Teams)

Attendees	Class	Comment
Sally McMahon	Chair	
Dean Sharafi	Australian Energy Market Operator (AEMO)	
Martin Maticka	AEMO	
Aditi Varma	Network Operator	Proxy for Zahra Jabiri
Genevieve Teo	Synergy	
Christopher Alexander	Small-Use Consumer Representative	
Noel Schubert	Small-Use Consumer Representative	
Geoff Gaston	Market Customer	
Patrick Peake	Market Customer	
Timothy Edwards	Market Customer	
Wendy Ng	Market Generator	
Jacinda Papps	Market Generator	
Rebecca White	Market Generator	
Paul Arias	Market Generator	
Geoff Down	Contestable Customer	Proxy for Peter Huxtable
Noel Ryan		

Grant Draper	Marsden Jacob Associates (MJA)	Presenter

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(b) RCM Review Working Group (RCMRWG)

The papers for agenda item 6(b) were taken as read.

Members noted that the item provides an update on the progress and next steps for the RCM Review, including the publication of the Consultation Paper and submissions received, and an updated timetable that captures some of the issues that have been identified and are still to be resolved.

Ms Guzeleva noted that 12 submission were received indicating general support and acknowledging the high importance of the review. Generally the submissions:

indicated a very high level of support for the addition of the flexibility product to the RCM;

provided a number of comments on the approach to allocate Certified Reserve Capacity to intermittent generators, and in particular:

- raised concern that the three identified methods may lead to volatility of outcomes; and
- sought further investigation of the method proposed by Collgar, without amendments.

Ms Guzeleva advised that, following the closure of submissions, a meeting was held

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	method has been widely criticized as not sufficiently rewarding intermittent generators for what they can provide to the system in terms of reliability).	
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	for the penalty arrangements, which will be brought to the December 2022 MAC meeting.	

(c) CAR Working Group (CARWG)

The paper was taken as read.

Ms Guzeleva noted that allocation of Market Fees has dominated the discussion at some of the CARWG meetings and that she was seeking to close off that issue today, and to also give an update on the very complex matter of how regulation costs are recovered elsewhere and the methods that the CARWG is looking at.

Ms Guzeleva noted that Market Fees are, in the scheme of things, a very small amount and will hopefully get smaller in the future but that regulation costs are going to increase, so sending signals around those latter costs is very important and should be the future focus of this review.

Mr Draper focused the discussion on the recommendations for each service (slides 5-7). Those services that were agreed by the MAC as lower priority were not covered in detail but recommendations were included on how they should be treated going forward.

Mr Schubert noted, with regard to the Contingency Reserve Raise, that there should be a mechanism or incentive for generators to look at how they configure on the network and divide their circuits so that a Credible Contingency is lower.

Ms Guzeleva agreed that, at the moment, there is not a signal for people to do the right thing.

Allocation of Market Fees

Mr Draper noted that the cost allocation mechanism for Market Fees is more to do with equity than to providing price signals to change behaviour to potentially reduce future costs, and that Market Fees make up a very small percentage of total costs.

Mr Draper acknowledged that with increasing amount of Distributed Energy Resources (**DER**) there were going to be changes in terms of how much of these costs is recovered from different types of customers. He noted that, in order to accurately allocate those costs, there would need to be a measure, such as Individual Reserve Capacity Requirements (**IRCR**), to ensure equitable recovery of costs from retailers whose customers have a high proportion of DER.

Mr Draper noted that the Hybrid method was recommended to CARWG at its meeting on 27 September 2022 and the views of the CARWG was mixed. Some generators wanted to understand further how the AEMO's effort/costs were split and why activities related to generators account for the majority of the costs.

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	<p>Mr Draper indicated that the CARWG generally accepted that Market Fees are really about cost recovery and that the Hybrid method approach would lead to a fairer allocation of costs, with the introduction of IRCR as part of the cost recovery mechanism, and noted that merchant peaking generators would also start to pay a fairer contribution to Market Fees.</p> <p>Mr Draper noted that it was important to consider the cost to develop and implement changes to the Market Fee allocation methods because it would be inappropriate to incur costs without tangible benefits to the market, and that further work was required on the treatment of storage to make sure there was no double counting.</p> <p>Mr Draper noted that some generators were in favour of allocating all Market Fees to final customers, and that there were some legitimate arguments for why that should occur, but also noted that customers cannot really respond to the charges and the fees will not affect their decisions. Other generators supported the existing cost allocation method, and the small customer representative supported the WEM Hybrid method, which indicates that there is a diverse range of opinions on this topic.</p> <p>Ms Guzeleva noted that the CARWG discussions went back to the guiding principles of the review, and that there was no evidence of any tangible benefits to changing the current allocation method. She also noted that making changes would incur costs for AEMO, including in the settlement systems, and that participants will incur costs because they will need to change their downstream contracts and systems.</p> <p>Ms Guzeleva noted that the cost of Market Fees is relatively small and, in the current environment, there was a question whether maintaining focus on this issue is of any benefit to the WEM. Ms Guzeleva noted that she was looking for the MAC to close off the issue of Market Fees noting that the MAC work program inherited this issue with the transfer of the market governance function to the CoE which was the reason for it being in scope.</p> <p>The Chair noted that the small use customer representative supported the WEM Hybrid method and sought further information on why that was the case. She also noted that, unless there is a benefit that outweighs the cost of implementation, it might be difficult to support a change from the current method.</p> <ul style="list-style-type: none"> ○ Mr Alexander indicated that there would be a concern if additional costs are passed through to consumers when they are not in a position to manage that. 	

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	<ul style="list-style-type: none"> ○ Mr Schubert noted that he supported the Hybrid method providing that the benefits are greater than the costs, but otherwise would prefer to keep the current WEM method. <p>Mrs Papps supported retaining the current WEM method and noted that Alinta’s rough estimate to implement the Hybrid method would be around \$100,000 to make required changes to the billing and reconciliation tools plus legal costs for changing contracts.</p> <p>Mr Peake noted that a consequence of increasing the fees of a plant that is running at zero capacity factor is that it becomes the benchmark plant, and one would assume that these fees would roll into the Benchmark Reserve Capacity Price (BRCP), which could lead to substantial costs to the community.</p> <ul style="list-style-type: none"> ○ Mr Draper agreed and noted that merchant peaking generators would have no way to pass the cost through to retailers and customers, and would have to bear these costs, so the BRCP would need to be adjusted to enable them to recover these costs. <p>Mr Gaston noted that this review was initially about equity, not efficiency, and there is no logic in trying to get more efficient or to avoid these costs. Mr Gaston supported the Hybrid method because this review came out of the fact that people with DER are avoiding or reducing their fees and that these fees are then passed to customers that do not have DER – this is an equity issue.</p> <ul style="list-style-type: none"> ○ Mr Draper agreed that the Hybrid method is fairer from the perspective that it addresses the DER issue. <p>Ms White added that the load side under the Hybrid method is allocated on IRCR, which is not equivalent to allocating to generators based on the full sent out/ nameplate capacity, and questioned whether the method applied to the loads need to be matched for generators.</p> <ul style="list-style-type: none"> ○ Ms Guzeleva noted that introducing IRCR relates to Mr Gaston’s point in capturing photovoltaics (PVs) in particular. This was chosen as one way to charge consumers on the basis of their contribution to the peak, which is not when PVs normally export their energy, to reflect the fact that they avoid some of the costs during the rest of the day. ○ Mr Gaston agreed with Ms White’s comment and noted that, while IRCR seems to be the most reasonable way of doing this, IRCR probably also needs a review, adding that this is being considered in the RCM Review. 	

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The Chair sought the MAC’s views noting there appeared to be some support for retaining the current WEM method because the costs of implementing the Hybrid method are expected to outweigh the benefits, as there may be equity benefits but potentially no efficiency benefits resulting from this method.

Mr Schubert agreed that this was the case.

Mr Peake also agreed, noting there was a need to consider whether equity continues to get worse as the market continues to develop and change.

Mrs Papps agreed and noted that, given there are only limited tangible benefits at this stage, and the current work streams and overall workload, there will be a benefit of pausing this issue while the issue of IRCR is dealt within the RCM Review.

Ms Alexander supported Mrs Papps comment.

The Chair asked Ms Guzeleva and Mr Draper how to close the issue, noting there was a preference to not continue to incur effort unless it was considered that there are likely to be benefits that have not been currently identified that outweigh the costs.

Ms Guzeleva noted that there will always be winners and losers from changing a cost allocation method and that this would boil down to a cost-benefit analysis, and since the Market Fees are so small, she considered that there is no justification for continuing discussion of Market Fees.

The Chair noted that the consultation paper will propose to retain the current WEM method because, although there may be some benefits to the Hybrid method from an equity perspective, the benefits are not expected to outweigh the costs. EPWA can then consider responses to the consultation paper to determine if/when further work needs to be done.

Allocation of Frequency Regulation Costs

Mr Draper noted that analysis had been provided to the CARWG on the current NEM Causer-Pays method and the Tolerance Method (slides 21 and 22) and that both methods provide some signals to generation for forecast accuracy and to better control their generation. Mr Draper also noted that the CARWG discussed consistency with what is happening within the NEM, as there would be efficiency benefits for AEMO if a cost allocation methodology similar to the NEM’s was implemented in the WEM.

Mr Draper noted that the New NEM Causer-Pays method, that is currently out for consultation and will be implemented in the NEM, was raised with the CARWG but that participants needed further information to understand what method.

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was consideration to delaying 5 minutes settlement, noting the perverse outcomes that are obviously occurring in the interim two years and any decision to delay the 5 minute settlement is very material.

The Chair noted that there was general support from the MAC to do further work on the new NEM Causer-Pays method on the basis that there are expected to be benefits from implementing that method.

Allocation of Contingency Reserve Raise Costs

Mr Draper noted that there is a potential issue of attributing too much Contingency Reserve Raise cost to a facility depending on how the facility is configured, noting the configuration of Collgar.

Ms Guzeleva noted that this was a very limited issue in scope and should not be difficult to address, bearing in mind the impact on AEMO’s current implementation work.

Mrs Papps tentatively supported the direction discussed by the CARWG but would like a more detailed definition of Credible Contingencies to be inserted in a procedure to understand that and what it means for this recommendation.

Allocation of Contingency Reserve Lower Costs

Mr Draper noted the need to send a price signal for Contingency Reserve Lower Costs and the recommendation to apply a modified runway method to incentivise participants to consider options to reduce the size of the credible risk for large facilities.

Ms Guzeleva noted that it was an important issue to look at and that it is worth including a recommendation on this in the consultation paper, and that MAC support was being sought to state that this issue needs to be addressed.

Mrs Papps noted that Alinta would need to see a cost-benefit analysis as part of that consultation paper given that the runwaor Contingen ion á owen2

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	<p>The Chair noted that this was an important theme to identify in the next steps in the consultation paper, including the resilience of some of these methods to future circumstances.</p> <p>Ms Guzeleva agreed noting that sustainability is one of the principles of the review.</p> <p>Allocation of other Essential System Services (ESS) Costs</p> <p>Mr Draper noted that allocation of other ESS costs had not been discussed in great detail by the CARWG, and that slides 41-43 proposed how this would be dealt with.</p> <p>Ms Guzeleva noted that allocation of other ESS costs was previously presented at the June 2022 MAC meeting, and</p>	

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governance changes and EPWA developing the work program. It was originally planned to be completed in 2022 but priorities were reassessed and it is now planned for 2023.

Ms White noted that she was unaware that there are issues with the existing process and that she understood that parties like Western Power will have a similar process for their procedures in the new market, and questioned if this review was essential at this point in time.

Mr Maticka noted that concerns were raised in the MAC (around three years ago) regarding transparency of AEMO's procedure change process. AEMO has changed some internal processes to make sure there is more communication when changes are made to procedures and is not aware of any issues since then. Mr Maticka noted that this should probably be reviewed on a regular basis to make sure that it is actually the most efficient process, but he would not deem it a high priority.

Mrs Papps agreed with Ms White's comments about workload and noted that the outstanding concern is the gap when a participant proposes a procedure change to one of the procedure administrators, but there is no obligation for the procedure administrator to do anything with the request, whereas the Coordinator is required to decide whether to progress a Rule Change Proposal. Ms White agreed with this point.

Ms Guzeleva noted that this issue was raised during the governance changes and is an important issue, and that

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reason why AEMO updates the MAC on procedure changes.

Mr Alexander noted that, as a small use customer representative, it is hard enough to engage with the rule change process, let alone procedures. As the market changes and more important and directly consequential things are put in the procedures, it will be important to make sure that there is engagement and participation.

Mr Maticka acknowledged Mr Alexander's point, noting that there is an enormous amount of material and small operators have other things to worry about than looking at procedures. Mr Maticka commented that, if someone did not have capacity to keep on top of what is happening in the market as a direct Market Participant, then they would probably have to go through some sort of representation.

The Chair noted that formalising the role of consumer engagement in the procedure change process could be included in the review and asked if this is a priority issue before market start in October 2023.

The Chair noted that it might fall back to EPWA to outline the resources that would be expected and for committee members to determine if they are able to participate in a review process at this time.

Ms White asked if the expedited process for procedure changes would be retained, and if so, then this may not be a pressing issue.

Ms White noted that, if we proceed with this review, the role for guidelines should also be considered, noting that GPS guidelines are tricky because they are not procedures and they hold less weight.

Ms Guzeleva noted that a transitional rule allows for six months after market start to continue with the transitional procedure change process, so there was no deadline to do this by market start. Ms Guzeleva noted that the point about guidelines versus procedures is a good point and should be included in the scope, as should Mr Alexander's comment regarding customer representation.

Ms Guzeleva asked for MAC members to provide in writing any additional things they want to include in the scope, and said that EPWA will amend the scope accordingly.

Ms Guzeleva noted that sufficient time has not been spent on the participation of loads in any of the market components and that there are things that may prevent loads from properly participating. Ms Guzeleva asked if members fe

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	<p>the review of Demand Side Response should commence in the new year.</p> <p>Mr Schubert and Mr Alexander agreed that it is very important that the review progresses as soon as resources allow.</p> <p>Mr Schubert noted that the market is short of capacity this coming summer and there are loads out there that could help.</p> <p>Mr Schubert noted that certification and dispatch baseline for Demand Side Programs (DSP) and treatment of IRCR are listed as out of scope and asked about the process to address barriers that might be raised by the way we certify DSPs or treat IRCR.</p> <ul style="list-style-type: none"> ○ Ms Guzeleva noted that these things are out of scope because they are examined in the RCM Review. ○ Ms Guzeleva noted that Mr Schubert first point is very important and will amend the scope to talk about scenarios for participation and analysis of those, noting that the MAC will probably establish a working group and will have to make sure that load participants are part of that group. <p>The Chair noted that this was considered to be a high priority issue.</p> <p>Ms Teo noted that the RCM Review covers some of these issues.</p> <p>Ms Varma noted that it would also be useful to consider the potential network services that DSPs can provide to ensure there is clarity between market services provided by DSPs and network services.</p>	
	<p>Action: MAC Members are to provide comment by 25 October on the Scopes of Work for:</p> <p>the review of the Procedure Change Process; and</p> <p>the review of the Participation of Demand Side Response in the WEM.</p>	<p>MAC Members (25/10/2022)</p>

9 **General Business**

Mr Gaston sought further information about AEMO's call for Supplementary Reserve Capacity (**SRC**), noting that the total cost could be around \$180 million and that small use customers will incur these costs. He also noted that he was not sure about all the rule changes that went through when the refund regime for Forced Outages was last changed.

Mr Gaston indicated that he was happy to have an email circulated with more information or for AEMO to present its reasons for the SRC to the MAC.

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	<p>Mr Sharafi noted that AEMO held a session specifically for the SRC process, that information is on the AEMO website, that he could email information to the MAC and that he could meet with Mr Gaston if further information is needed.</p> <p>Ms Guzeleva noted that she could send the relevant rules to Mr Gaston or could meet with him, but there was not much else AEMO could do with the constraints the market is facing this summer.</p>	
	<p>The next MAC meeting is scheduled for 15 November 2022.</p>	
	<p>Action: AEMO to contact Mr Gaston to discuss what further information is required for the SRC process and is to</p>	