

Meeting Agenda

Meeting Title: Market Advisory Committee

Meeting Number: 2017-02

Date: Wednesday 14 June 2017

Time: 1:00 pm – 4:00 pm

Location: Training Room No. 1, Albert Facey House
469 Wellington Street, Perth

Item	Item	Responsibility	Duration
1	Welcome	Chair	5 min
2	Meeting Apologies/Attendance	Chair	5 min
3	Minutes from previous Meeting	Chair	5 min
4	Actions Arising	Chair	5 min
5	Market Rules		
	a) Overview of Rule Change Proposals	Laura Koziol	10 min
	b) Pre Rule Change Proposal RC_2017_05 AEMO Role in Market Development	AEMO	30 min
	c) Discussion of Rule Change Proposal addressing issues with prudential requirements	AEMO	15 min
6	Update on AEMO's Market Procedures	AEMO	10 min
7	Proposed Terms of Reference for AEMO Procedure Change Working Group	Jenny Laidlaw	30 min
8	General Business	Chair	45 min

Next Meeting: 12 July 2017

Please note this meeting will be recorded.

Minutes

Meeting Title:	Market Advisory Committee (MAC)
Meeting No:	2017-01
Date:	Monday 1 May 2017
Time:	1:00 pm – 3:06 pm
Location:	Training Room No. 2, Albert Facey House 469 Wellington Street, Perth

Attendees	Class	Comment
Rajat Sarawat	Chair	
Martin Maticka	AEMO	
Dean Sharafi	System Management	
Margaret Pырchla	Western Power	
Will Bargmann	Synergy	
Matthew Martin	Minister's Appointee – Small-Use Consumer Representative	
Geoff Gaston	Market Customers	
Steve Gould	Market Customers	
Shane Cremin	Market Generators	
Wendy Ng	Market Generators	
Peter Huxtable	Contestable Customers	
Sara O'Connor	Economic Regulation Authority (ERA) Observer	

Also in attendance	From	Comment
Patrick Peake	Perth Energy	Presenter
Jenny Laidlaw	RCP Support	Presenter
Laura Koziol	RCP Support	Presenter
Rebecca Herbener	RCP Support	Minutes
Peter Kolf	Rule Change Panel (Chair)	Observer
Elizabeth Aitken	Perth Energy	Observer

Andrew Stevens	Energy Made Clean	Observer
Jacinda Papps	Alinta Energy	Observer
Ignatius Chin	Bluewaters Power	Observer

Item	Subject	Action
1	<p>Welcome</p> <p>Mr Rajat Sarawat welcomed MAC members and observers to the first meeting of the MAC under the Rule Change Panel and introduced himself as acting Executive Officer and MAC Chair.</p>	
2	<p>Meeting Apologies/Attendance</p> <p>No apologies were noted.</p>	
3	<p>Actions Arising</p> <p>There were no outstanding action items.</p>	
4	<p>MAC Administration Update</p> <p>Membership Changes</p> <p>The Chair summarised the MAC membership changes since the last meeting, including:</p> <ul style="list-style-type: none"> • the replacement of Ms Kylie O’Keeffe as Chair; • the replacement of Mr Ray Challen by Mr Matthew Martin as the Minister’s representative for small-use consumers; • the replacement of Mr Matthew Cronin by Ms Margaret Pyrchla as Western Power representative; and • the resignations of Mr Andrew Stevens and Mr Simon Middleton. <p>MAC Constitution and Appointment Guidelines</p> <p>The Chair gave a summary of the current review of the MAC Constitution and Appointment Guidelines.</p> <p>The Chair advised that the submission period for the review closed on 27 April 2017. The two submissions received, from Perth Energy and AEMO, were generally supportive of the proposed amendments, with AEMO suggesting some minor modifications.</p> <p>The Chair noted that AEMO had identified that under the current Appointment Guidelines the Rule Change Panel must, as part of the annual review of composition, send a call for nominations for discretionary class members to the Western Australian Sustainable Energy Association, which has ceased to exist. The Chair sought suggestions from MAC members for other, similar organisations from which the Rule Change Panel</p>	

	<p>should seek MAC membership nominations instead. Mr Shane Cremin suggested two bodies, the Clean Energy Council and the Independent Power Association.</p> <p>The Chair noted that the Rule Change Panel is planning to undertake more detailed review of the Constitution and Appointment Guidelines later in the year.</p> <p>2017 Meeting Schedule</p> <p>The Chair requested feedback from MAC members on the proposed meeting schedule for 2017.</p> <p>MAC members supported the general intention to hold future meetings on the second Wednesday of each month.</p> <p>MAC members agreed to hold the next meeting on 14 June 2017, to allow AEMO sufficient time to prepare and distribute a Pre Rule Change Proposal on a prudential risk issue to MAC members before the meeting.</p> <p>The Chair advised that most meetings would be held between 1:00 pm and 4:00 pm.</p> <p>Action: RCP Support to send out calendar invitations for the remaining MAC meetings in 2017.</p>	RCP Support
5a	<p>Overview of Rule Change Proposals</p> <p>Ms Laura Koziol provided an update on the open Rule Change Proposals. The following key points were discussed.</p> <p>General</p> <ul style="list-style-type: none"> • In response to questions from Mr Martin Maticka and Mrs Jacinda Papps, Ms Koziol advised that the Rule Change Panel would develop a merit based order of priority for existing and incoming Rule Change Proposals and would consult with the MAC on this order. <p>Open Rule Change Proposals initially submitted by the IMO</p> <ul style="list-style-type: none"> • The Chair noted that there were three possible outcomes of the assessment of each of these Rule Change Proposals: approval, rejection, or further delay to await outcomes of the Electricity Market Review (EMR) where a Rule Change Proposal would be affected by planned Government reforms. • Mr Maticka sought clarification on whether the Rule Change Panel was awaiting feedback from the Public Utilities Office (PUO) about the new Government's plans for the EMR before making a decision on progressing any of these Rule Change Proposals. Ms Koziol confirmed that this was the case. Mr Cremin asked if the Government had yet provided the PUO with its position regarding the future direction of the EMR. Mr Martin answered that the PUO was still in the process of briefing the new Minister and had not received any feedback to not progress with the EMR. Mr Martin noted 	

	<p>that the PUO would update the Rule Change Panel as soon as it had any new information.</p> <ul style="list-style-type: none"> • Mr Ignatius Chin asked when the Minister was expected to provide information about the future of the EMR reforms. Mr Martin advised that there was no specific timeline. • Mr Cremin noted that the IMO (which was responsible for the rule making function before the Rule Change Panel) had extended the timeframes of the Rule Change Proposals following advice from the previous Minister. Mr Cremin expressed the view that the Rule Change Panel should resume the progression of the proposals once the current extensions expire. Ms Koziol clarified that the Rule Change Panel had recently extended the timeframes of the proposals until the end of 2017, but was planning to progress the proposals as soon as possible. The Chair noted that that the Minister's feedback was important for the progression of the proposals. • There was some discussion about how the Rule Change Panel should manage Rule Change Proposals in the absence of any direction from the Minister. The Chair noted that the Rule Change Panel was actively seeking the Minister's feedback but would not wait indefinitely before progressing the proposals. • Mr Stevens suggested that the Rule Change Panel assess the proposals before the next MAC meeting. The Chair noted that the Rule Change Panel was currently assessing if any of the proposals could be progressed regardless of the Minister's feedback. • Mr Cremin asked if any of the proposals included the reduction of Gate Closure and was therefore in conflict with the new Rule Change Proposal RC_2017_02. Ms Jenny Laidlaw clarified that none of the ten Rule Change Proposals initially submitted by the IMO was proposing amendments to Balancing Gate Closure. • Ms Wendy Ng sought clarification on how proposals would be treated where a part but not all of the proposed amendments would be implemented by the EMR. Ms Laidlaw answered that this needed to be clarified with the Minister to avoid a waste of resources. <p><i>Rule Change Proposals submitted since 3 April 2017</i></p> <ul style="list-style-type: none"> • Ms Koziol noted that, on 28 April 2017, the Rule Change Panel decided to progress Rule Change Proposal: Reserve Capacity Mechanism - Manifest Errors 2017 (RC_2017_01) under the Fast Track Rule Change Process. The Rule Change Notice had been published on the same day. • No issues were raised regarding the Rule Change Proposals submitted since 3 April 2017. 	
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	Action: The Rule Change Panel to assess how to progress the ten open Rule Change Proposals initiated by the IMO	Rule Change Panel
5b	<p>RC_2017_02: Implementation of 30-Minute Balancing Gate Closure</p> <p>Mr Patrick Peake of Perth Energy gave a presentation to the MAC on Perth Energy's Rule Change Proposal: Implementation of 30-Minute Balancing Gate Closure (RC_2017_02). The presentation focussed on the benefits of moving from a 2-hour to a 30-minute gate closure.</p> <p>Mr Maticka and Mr Dean Sharafi also gave a presentation on the proposal behalf of AEMO. The presentation comprised two parts, with Mr Maticka discussing the effects of the proposal on market systems and outcomes and Mr Sharafi describing some of the challenges System Management would face with a reduced gate closure period.</p> <p>Copies of both presentations are available on the Rule Change Panel's website.</p> <p>The following key points were raised by MAC members during the discussion of the proposal.</p> <ul style="list-style-type: none"> • Mr Peake noted that AEMO was working to improve forecasting accuracy and so Perth Energy's focus was to complement that effort by proposing a 30-minute gate closure. While Perth Energy supported broader reforms to reduce gate closure further it saw a reduction to 30 minutes as a low cost option that would provide immediate benefits. • In response to questions from MAC members, Mr Peake confirmed that Perth Energy's presented analysis only covered Independent Power Producers (IPPs) and did not consider the effects of wind forecasting errors. • Mr Maticka advised that reconfiguring the market systems to support a 30-minute gate closure would be relatively simple and inexpensive. However, a reduction below 30 minutes would require much more significant changes to market systems, as they have been designed around a 30-minute processing cycle. There is also a risk of additional rework costs if such changes were to be made before AEMO completes the extraction of its systems from Western Power. • Mr Maticka noted that at the time of gate closure the wind forecast provided by Market Generators through their Balancing Submissions was usually more accurate than the persistence wind forecast, but when it came closer to the actual Trading Interval the persistence wind forecast became notably more accurate than the Balancing Submissions. Mr Cremin advised that Market Generators are still not permitted to update their wind forecasts after gate closure, as a suggestion previously made by Alinta to 	

	<p>remove this prohibition from the Market Rules has not been progressed.</p> <ul style="list-style-type: none"> • Mr Maticka advised that the results of AEMO's preliminary analysis of the likely forecast improvement with shorter gate closure were consistent with those presented by Perth Energy. • Mr Sharafi agreed a shorter gate closure would improve the efficiency of the market. However, Mr Sharafi noted that due to current market arrangements IPPs are dispatched at their maximum ramp rates at the start of a Trading Interval, and this results in combined IPP ramp rates that are sometimes 3-4 times higher than the ramp rate of the Balancing Portfolio. Currently System Management has about 110 minutes after IPP gate closure to plan and execute the manual positioning of the Synergy plant to compensate for IPP movements, changes in demand and intermittent generation fluctuations, while preserving the required levels of Load Following and contingency reserves. Mr Sharafi considered that if this period was reduced to 30 minutes the dispatch would become unmanageable for System Management under the current market structures. • Mr Sharafi advised that if the dispatch systems and Market Rules were changed to allow the linear ramping of IPP facilities then System Management would be able to manage a 30-minute gate closure. The changes would need to include amendments to the current constraint payment calculation in the Market Rules, to prevent the payment of constrained on/off compensation to Market Generators who were dispatched at less than the maximum ramp rate provided in their Balancing Submission. • Ms Laidlaw sought more detail on the causes of the 657 MW dispatch requirement in the example provided in slide 11 of AEMO's presentation. Mr Sharafi responded that this might be an extreme example but challenging situations were not rare and occurred every one or two shifts. • Mr Stevens suggested it was incumbent on the system operator to propose a path forward for the market, noting recent forecasts that by 2040 40% of Western Australian generation would come from renewable sources. Mr Sharafi replied that System Management had thought the EMR was providing this path, and that it was difficult to change one aspect of the market without it affecting other aspects. • Ms Laidlaw asked how well the relevant IPPs could physically control the ramp rates of their facilities, both during the process of synchronising and reaching minimum stable levels and during subsequent movements. Mr Peake advised that Perth Energy's facility's minimum stable level was effectively 0 MW, although they would prefer to reach a minimum output level of around 35-55 MW quickly for 	
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	<p>efficiency reasons. Once the facility reaches this level it is very flexible in terms of ramp rates. Mr Stevens proposed a request be sent to Market Generators to provide details of their ramping capabilities. Ms Laidlaw proposed to liaise with AEMO first to check what relevant information it would be able to provide.</p> <ul style="list-style-type: none"> • Ms Ng considered that control software changes may be required for some facilities to support flexible ramping. Mr Stevens suggested the costs of such changes may be minor compared with the potential economic benefits of shorter gate closure. • Mr Sharafi noted the effect of increasing solar PV penetration on load forecast accuracy. There was some discussion about the method used by System Management to measure and estimate solar PV output. • Ms Laidlaw and Mr Stevens asked whether there was any scope to reduce gate closure to somewhere between 30 minutes and 2 hours, e.g. 1 hour. Mr Sharafi replied that the controllers have advised him that in some cases even a 2-hour gate closure can be challenging. • Ms Elizabeth Aitken asked if the Real Time Dispatch Engine could support a 5-minute dispatch cycle. Mr Sharafi replied that a shorter dispatch cycle would not in itself fix the constraint payment problem. • Mr Stevens queried the actual extent of the IPP ramping problem, considering that if ramp rates were only a rare problem (e.g. once every three months) then this might be acceptable. Mr Sharafi responded that once every three months or even once a year would be too frequent if the event resulted in load rejection or a major blackout. Mr Stevens considered that System Management would constrain IPP units on or off in these situations rather than risking power system security to follow the merit order. • There was some discussion about how the costs of any additional constraint payments would compare with the efficiency benefits of shorter gate closure. Mr Stevens did not expect the impact of the problem situations to be anything like the efficiency savings of 30-minute gate closure. Ms Laidlaw noted that more information would be needed to support a clear comparison of the pros and cons of the proposal. Mr Cremin questioned who would be undertaking the analysis and how the necessary information would be obtained. Ms Laidlaw advised that the Rule Change Panel would be seeking information and assistance from AEMO with respect to this analysis. • Mr Will Bargmann considered the proposal would create a wealth transfer from Synergy to IPPs, as it exacerbated an economic inefficiency caused by disparity of information available to IPPs compared with Synergy. This was because 	
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	<p>the proposed 90-minute change in gate closure times was a 75% improvement for IPPs but proportionally only a small change for Synergy. Mr Bargmann considered this wealth transfer would need to be taken into account in any cost/benefit analysis for the proposal. Mr Peake disagreed with Mr Bargmann, noting that if all the parties involved were bidding at their short run marginal costs then the shifting of dispatch from Synergy to IPPs should be economically efficient and benefit customers.</p> <ul style="list-style-type: none"> • Ms Aitken and Mr Stevens both noted that Synergy could remove facilities from the Balancing Portfolio and offer them into the Balancing Market with the same gate closure as IPPs. Mr Bargmann responded that the pros and cons of facility bidding was a bigger market issue. There was some discussion about the broader changes to the energy market proposed by the EMR (including facility bidding, co-optimisation and 5-minute dispatch as well as reduced gate closure), and how the timing and direction of these changes affects this Rule Change Proposal. • Mr Stevens noted the Balancing Portfolio provides several advantages to Synergy over other participants e.g. IPPs are unable to see facility bid data for the Synergy plant. Mr Bargmann acknowledged that the difference in gate closure times was one of the trade-offs for Synergy's continued use of a portfolio. • Mr Bargmann requested that the Rule Change Panel, when considering this proposal, also consider changes to Synergy's gate closure times as suggested in the IMO's Pre Rule Change Proposal: Improvements to the Energy Market (PRC_2014_01). Ms Laidlaw asked Mr Bargmann what Synergy's position on its own gate closure time would be if 30-minute gate closure proved to be feasible. Mr Bargmann replied that Synergy would consider this when preparing its submission on RC_2017_02. • Ms Laidlaw sought the views of other MAC members on further changes to Synergy's gate closure arrangements, for example the introduction of a rolling 60-minute gate closure for the Balancing Portfolio. Mr Peake responded that if reducing Synergy's gate closure resulted in ancillary service cost savings that flowed through to the market then Perth Energy would be strongly in favour of the change. • Mr Bargmann stressed the need for a cost/benefit analysis to be undertaken on the proposal. Mr Cremin suggested that even if in the short term the net benefits of the proposal were limited, there was a need to consider the benefits in the context of a broader, long-term (10-year) plan to transition to a more flexible energy system. Mr Bargmann agreed it would be very short-sighted for a business case not to consider the long-term benefits and costs. 	
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	<ul style="list-style-type: none"> • Mr Stevens suggested that Synergy might provide some supporting analysis for its position in its submission on the Rule Change Proposal. Ms Laidlaw noted that the first submission period would close on 29 May 2017. 	
6	<p>Role of Working Groups in the Procedure Change Process</p> <p>Ms Laidlaw provided an update on the role of the current MAC Working Groups.</p> <p>MAC members agreed that the key benefit of the Working Groups is that they discuss technical and procedural matters on a substantially more detailed level than the MAC or AEMO's stakeholder forums.</p> <p>MAC members discussed the best way to set up the Working Groups to accommodate the current distribution of functions under the Market Rules. The following concept was developed and agreed on:</p> <ul style="list-style-type: none"> • the two existing Working Groups will be disbanded; • one standing Working Group for AEMO's Market Procedures (including the Power System Operation Procedures) will be established; • the Chair and secretariat for the new Working Group will be provided by AEMO; • AEMO will provide a report at each MAC meeting on the activities of the Working Group; • the Working Group will have no standing members (apart from the Chair) - instead Rule Participants can elect to send a representative; • AEMO and the MAC will be able to refer issues to the Working Group and request the convening of a meeting of the Working Group; • the Rule Change Panel and the ERA will liaise directly with the MAC regarding changes to the Market Procedures for which they are responsible; and • RCP Support will develop draft terms of reference for the new Working Group for MAC review; • the Rule Change Panel will develop proposed amendments to the Administration Procedure to reflect the Working Group changes. <p>Action: The Rule Change Panel to develop a Procedure Change Proposal to reflect the changes to MAC Working Groups in the Market Procedure: Procedure Administration.</p> <p>Action: RCP Support to prepare draft terms of reference for the new Working Group for consideration at the next MAC meeting.</p>	<p style="text-align: center;">Rule Change Panel</p> <p style="text-align: center;">RCP Support</p>

7	Electricity Market Review Update Discussed as part of other agenda items.	
8	General Business Ms Ng sought clarification on the timing for the annual review of the MAC composition. Ms Laidlaw advised that the Rule Change Panel intended to publish the final amended MAC Constitution and Appointment Guidelines in mid-May and a call for nominations shortly afterwards. The window for nominations would be open until mid to late June and outcomes would be published by the end of July.	

The meeting closed at 3:06 pm.

Agenda Item 4: MAC Action Items

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Shaded	Shaded action items are actions that have been completed since the last MAC meeting.
Unshaded	Unshaded action items are still being progressed.
Missing	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

Item	Action	Responsibility	Meeting arising	Status/progress
1/2017	RCP Support to send out calendar invitations for the remaining MAC meetings in 2017.	RCP Support	May 2017	Closed
2/2017	The Rule Change Panel to assess how to progress the ten open Rule Change Proposals initiated by the IMO	Rule Change Panel	May 2017	Open
3/2017	The Rule Change Panel to develop a Procedure Change Proposal to reflect the changes to MAC Working Groups in the Market Procedure: Procedure Administration	Rule Change Panel	May 2017	Open
4/2017	RCP Support to prepare draft terms of reference for the new Working Group for consideration at the next MAC meeting	Rule Change Panel	May 2017	Open

Agenda Item 5a: Overview of Rule Change Proposals

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Pre-Rule Change Proposals

Reference	MAC Meeting discussed	Proponent	Title
RC_2017_05	14/06/2017	AEMO	AEMO Role In Market Development

Formally submitted Rule Change Proposals (as at 8 June 2017)

Reference	Date submitted	Proponent	Title	Next Step	Date
Rule Change Proposals formally submitted and awaiting a decision on their progression					
RC_2017_04	07/06/2017	Public Utilities Office	Reserve Capacity Mechanism - Minor Changes 2017	Rule Change Panel decides whether to progress	14/06/2017
Standard Rule Change Proposals with first submission period open					
RC_2017_02	04/04/2017	Perth Energy	Implementation of 30-Minute Balancing Gate Closure	Submissions close	12/06/2017
Standard Rule Change Proposals with first submission period closed					
RC_2015_03	27/03/2015	IMO	Formalisation of the Process for Maintenance Requests	Publication of Draft Rule Change Report	29/12/2017

RC_2015_01	03/03/2015	IMO	Removal of Market Operation Market Procedures	Publication of Draft Rule Change Report	29/12/2017
RC_2014_09	13/03/2015	IMO	Managing Market Information	Publication of Draft Rule Change Report	29/12/2017
RC_2014_06	28/01/2015	IMO	Removal of Resource Plans and Dispatchable Loads	Publication of Draft Rule Change Report	29/12/2017
RC_2014_05	02/12/2014	IMO	Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price	Publication of Draft Rule Change Report	29/12/2017
RC_2014_03	27/01/2014	IMO	Administrative Improvements to the Outage Process	Publication of Draft Rule Change Report	29/12/2017
RC_2013_15	24/12/2013	IMO	Outage Planning Phase 2 – Outage Process Refinements	Publication of Draft Rule Change Report	29/12/2017

Standard Rule Change Proposals with second submission period closed

RC_2014_10	13/01/2015	IMO	Provision of Network Information to System Management	Publication of Final Rule Change Report	29/12/2017
RC_2014_07	22/12/2014	IMO	Omnibus Rule Change	Publication of Final Rule Change Report	29/12/2017
RC_2013_21	10/01/2014	IMO	Limit to Early Entry Capacity Payments	Publication of Final Rule Change Report	29/12/2017

Rule Change Proposals awaiting commencement

RC_2017_01	20/04/2017	Public Utilities Office	Reserve Capacity Mechanism - Manifest Errors 2017	Commencement	01/10/2017
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Rule Change Proposals commenced since the last MAC meeting

Reference	Date submitted	Proponent	Title	Date
RC_2017_01	20/04/2017	Public Utilities Office	Reserve Capacity Mechanism - Manifest Errors 2017	31/05/2017
RC_2017_03	01/05/2017	AEMO	Change the Publication Date for Relevant Level Information	31/05/2017

Agenda Item 5b: Pre Rule Change Proposal RC_2017-05 – AEMO Role in Market Development

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1. The Proposal

AEMO has developed a Pre Rule Change Proposal for discussion by the MAC. The proposal seeks to clarify AEMO's market development function.

In the proposal AEMO expresses the view that it is crucial that AEMO is capable of contributing to the development of the market and market processes, and that it should be able to recover costs associated with these activities.

AEMO therefore proposes that the Market Rules should explicitly allow it to recover costs for the following market development services:

- development of Rule Change Proposals where AEMO identifies potential improvement opportunities in market operation and administration;
- provision of support to the Rule Change Panel to assess market impacts, benefits and costs of Rule Change Proposals; and
- provision of support to the ERA when undertaking the periodic reviews conferred on the ERA under the Market Rules.

2. Recommendation

It is recommended that the MAC discusses AEMO's Pre Rule Change Proposal.



Wholesale Electricity Market Rule Change Proposal

Rule Change Proposal ID: *[to be filled in by the RCP]*
 Date received: *[to be filled in by the RCP]*

Change requested by:

Name:	Cameron Parrotte
Phone:	08 9254 4342
Email:	cameron.parrotte@aemo.com.au
Organisation:	AEMO
Address:	PO Box 7096, Cloisters Square, Perth WA 6850
Date submitted:	<i><date submitted to the RCP></i>
Urgency:	<i><3-high, 2-medium, 1-low></i>
Rule Change Proposal title:	AEMO Role In Market Development
Market Rule(s) affected:	2.1A.2

Introduction

Clause 2.5.1 of the Wholesale Electricity Market (WEM) Rules (Market Rules) provides that any person may make a Rule Change Proposal by completing a Rule Change Proposal form that must be submitted to the Rule Change Panel.

This Rule Change Proposal can be sent by:

Email to: rcp.secretariat@rcpwa.com.au

Post to: Rule Change Panel
 Attn: Executive Officer
 C/o Economic Regulation Authority
 PO Box 8469
 PERTH BC WA 6849

The Rule Change Panel will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives.

The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the Proposed Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed rule change:

As a regulated entity, the Australian Energy Market Operator (**AEMO**) performs functions that are conferred on it by legislation, regulations and other subordinate instruments, including the Wholesale Electricity Market (**WEM**) Rules.

AEMO's functions in respect of the WEM, including in its capacity as System Management, are detailed in the following instruments:

- regulations 12 and 13 of the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*;
- the *Australian Energy Market Operator (Functions) Regulations 2015*¹; and
- clauses 2.1A and 2.2 of the WEM Rules.

Clause 2.22A.1 of the WEM Rules lists the services provided by AEMO for the purpose of determining AEMO's budget. The services (which generally relate to the functions conferred in the instruments listed above) include market operation services, system planning services, market administration services and system management services.

The explicit description of AEMO's functions in the WEM Rules is of particular importance due to the regulatory oversight of AEMO's budget to perform its WEM functions. The Allowable Revenue and Forecast Capital Expenditure for each of the above services is determined by the Economic Regulation Authority (**ERA**)² and limits the costs that AEMO may recover from Market Fees in the WEM.³ The ERA may only approve costs, forming part of the Allowable Revenue and Forecast Capital Expenditure, that would be incurred by a prudent provider of

¹ The only function conferred on AEMO by these regulations is "to prepare for the proposed conferral of a function on it under the *Electricity Industry Act 2004* or the *Gas Services Information Act 2012*".

² See clause 2.22.A.2 of the WEM Rules. AEMO must seek approval from the Economic Regulation Authority for its Allowable Revenue and Forecast Capital Expenditure for the services in clause 2.22A.1 of the WEM Rules.

³ See clauses 2.22A.7 and 2.24.

the prescribed services⁴.

AEMO considers it crucial that it should be capable of contributing to the development of the market and efficiency improvements in market processes, and that it should be able to recover costs associated with these activities. AEMO considers that the following contributions to the development of the market are not explicitly addressed in the WEM Rules:

- AEMO's central, independent role in market and system operation means that it is uniquely placed to identify opportunities for improvement in market operation and administration. This is reinforced by experience in both the WEM and the National Electricity Market (**NEM**), where the market and system operator has developed the highest number of Rule Change Proposals.⁵ AEMO considers it would be inefficient for the WEM as a whole if AEMO identified potential improvement opportunities but the WEM relied on other organisations (e.g. Market Participants, the Public Utilities Office or the ERA) to develop the Rule Change Proposals.

While clause 2.5.1 allows anyone, including AEMO, to make a Rule Change Proposal, the WEM Rules do not explicitly state that this is a service for which AEMO may seek recovery of costs. In addition, currently the WEM Rules do not make it clear that 'market operation services' and 'market administration services' in clause 2.22A.1(a) and (c) extend to market development that is connected with these services.

- Prudent assessment of Rule Change Proposals by the Rule Change Panel requires consideration of market impacts, benefits and implementation costs and approaches. Given that AEMO's IT systems and processes are developed to operationalise numerous aspects of the WEM Rules, AEMO expects that the Rule Change Panel will require specific information from AEMO to help it understand (and potentially quantify) market impacts, benefits and costs for the majority of Rule Change Proposals.

AEMO contends that this support for the Rule Change Panel, which can promote timeliness and quality of outcomes, is not clearly expressed to be within the scope of clause 2.22A.1(c) of the WEM Rules ("...participation in the Market Advisory Committee and other consultation...") in relation to market administration services.

- The WEM Rules require the ERA to undertake periodic reviews of various aspects of the WEM design.⁶ All of these reviews relate to processes performed by AEMO (including in its capacity as System Management). AEMO considers that its support for these reviews is likely to improve their timeliness and effectiveness.

Assistance from AEMO (or System Management) in carrying out the ERA review into Ancillary Service Standards and outage planning processes is explicitly required.⁷ However, the periodic reviews of the methodology for setting the Benchmark Reserve Capacity Price and Energy Price Limits (clause 2.26.3), the Planning Criterion and the

⁴ See clause 2.22A.11(b).

⁵ AEMO and its predecessor (the National Electricity Market Management Company, or NEMMCO) has developed 22 per cent of proposals to amend the National Electricity Rules. In aggregate, the Independent Market Operator (**IMO**) and System Management developed 80 per cent of Rule Change Proposals for the WEM Rules. AEMO notes that its budgets are not subject to regulatory approval for the NEM, and that the IMO was previously conferred responsibility for the rule change process. (Data gathered from <http://www.aemc.gov.au/Rule-Changes> and <https://www.erawa.com.au/rule-change-panel/market-rule-changes> on 18 April 2017.)

⁶ For example the ERA must review the methodology for setting the Benchmark Reserve Capacity Price and Energy Price Limits under clause 2.26.3 of the WEM Rules.

⁷ Specifically, the assistance of AEMO or System Management is stipulated in clause 3.15.1 (five-yearly Ancillary Service study) and clause 3.18.18 (five-yearly outage planning process review).

demand forecasting process (clause 4.5.15), the Relevant Level Methodology (clause 4.11.3C) and the Market Procedure for the Benchmark Reserve Capacity Price (clause 4.16.9) will require greater AEMO involvement than is expressly provided for in the WEM Rules.

AEMO considers that the lack of clarity in the Market Rules was reflected in the ERA's "Final Determination Allowable Revenue and Forecast Capital Expenditure for the Australian Energy Market Operator 2016/17 – 2018/19", where the ERA determined that AEMO would only require approximately three full-time equivalent personnel for compliance and rule change development activities for the period 2016/17 to 2018/2019.⁸ AEMO considers that this determination is insufficient to account for the critical input that AEMO can, and should, provide to development (and compliance) of the market.

To address these shortcomings in the WEM Rules, AEMO seeks amendments to clarify AEMO's prescribed functions and budgetary approval process by explicitly describing a function of AEMO to "promote the development and improve the effectiveness of the operation and administration of the Wholesale Electricity Market, including providing information to the Rule Change Panel and Economic Regulation Authority to support their respective functions".

The proposed drafting has been paraphrased from a similar function conferred on AEMO in section 49(1)(b) of the National Electricity Law⁹ and adjusted for the WEM context so as to specifically target the activities described above.

AEMO considers that this contribution will improve the quality and timeliness of regulatory outcomes in the WEM and reduce the burden on Market Participants and other agencies. The expected benefits are outlined in more detail in section 5 of this proposal.

If this proposal is accepted, AEMO will seek to enter into a Memorandum of Understanding between AEMO and each of the ERA and the Rule Change Panel. These documents, which would be publicly available, would document the approach to collaboration between the organisations to assist each organisation in performing its statutory obligations. AEMO notes that it has Memoranda of Understanding in place with the Australian Energy Market Commission¹⁰ and the Australian Energy Regulator¹¹.

2. Explain the reason for the degree of urgency:

As outlined in AEMO's 17 February 2017 adjustment proposal with respect to the 2016-2019 Allowable Revenue and Forecast Capital Expenditure¹², AEMO intends to make a further adjustment proposal to the ERA in late 2017 once clarification has been obtained about the policy direction and underpinning market reform legislation for the WEM.

⁸ See items 49 to 55, page 14.

⁹ Section 49(1)(b), Schedule –National Electricity Law, *National Electricity (South Australia) Act 1996* provides that AEMO has the function "to promote the development and improve the effectiveness of the operation and administration of the wholesale exchange"

¹⁰ Available at <http://www.aemc.gov.au/About-Us/Resources/Memoranda-of-Understanding/AEMC-AEMO-MOU-signed-and-dated.aspx>.

¹¹ Available at [https://www.aer.gov.au/system/files/MOU%20between%20AER%20and%20AEMO%20\(July%202011\).PDF](https://www.aer.gov.au/system/files/MOU%20between%20AER%20and%20AEMO%20(July%202011).PDF).

¹² '2016-19 Allowable Revenue and Forecast Capital Expenditure Submission to Economic Regulation Authority: Supplemental document to support adjustment to Allowable Revenue and Forecast Capital Expenditure' is available at <https://www.erawa.com.au/electricity/wholesale-electricity->

AEMO considers that the proposed amendments to the WEM Rules would provide greater clarity and certainty in respect of the scope of services that can be included in Allowable Revenue and Forecast Capital Expenditure determinations. Timely progression of this Rule Change Proposal via the Standard Rule Change Process is important to enable the proposed Amending Rule, if accepted, to be taken into account in the ERA's determination of AEMO's adjustment proposals with respect to the 2016-2019 Allowable Revenue and Forecast Capital Expenditure.

3. Provide any proposed specific changes to particular Market Rules: *(for clarity, please use the current wording of the rules and place a ~~strike through~~ where words are deleted and underline words added)*

2.1A.2. The WEM Regulations also provide for the Market Rules to confer additional functions on AEMO. The functions conferred on AEMO are:

...

(l) to support the Economic Regulation Authority in its role of monitoring market effectiveness, including providing any market related information required by the Economic Regulation Authority; ~~and~~

(IA) to promote the development and improve the effectiveness of the operation and administration of the Wholesale Electricity Market, including providing information to the Rule Change Panel and Economic Regulation Authority to support their respective functions; and

...

...

2.22A.1. For the purposes of this clause 2.22A, the services provided by AEMO are:

...

(c) market administration services, including AEMO's performance of the Procedure Change Process, support for the Rule Change Panel in carrying out its functions under these Market Rules, participation in the Market Advisory Committee and other consultation, ~~to support for monitoring and~~ market reviews by the Economic Regulation Authority, audit, registration related functions and other functions under these Market Rules; and

...

4. Describe how the proposed rule change would allow the Market Rules to better address the Wholesale Market Objectives:

AEMO considers that clearer specification of its roles in development of the market and efficiency improvements in market processes will better achieve Wholesale Market Objectives

[market/determinations/independent-market-operator-imo-system-management-and-australian-energy-market-operator-aemo-allowable-revenue.](#)

(a) and (d). The proposed amendments would promote earlier rectification of emergent issues in the market that may be affecting market efficiency, security or reliability, and would remove ambiguity in administrative market processes.

AEMO considers that the proposed amendments are consistent with the other Wholesale Market Objectives.

5. Provide any identifiable costs and benefits of the change:

AEMO considers that the proposed amendments would result in the following benefits:

- earlier rectification of emergent issues in the market that may be affecting market efficiency, security or reliability;
- improved timeliness of the rule change processes;
- improved support and greater insights provided to the Rule Change Panel and the ERA for their respective functions; and
- the removal of ambiguity in administrative market processes (specifically the processes associated with AEMO's budget).

AEMO notes that the WA Government's Electricity Market Review (**EMR**) has been the primary source of WA regulatory activity since 2014 and caused prescribed market reviews and other initiatives to be put on hold. Consequently, AEMO oriented its WA regulatory engagement toward participation in the design and implementation of EMR reforms through its WA Market Reform Program. This was reflected in AEMO's proposal "2016-19 Allowable Revenue Submission to the Economic Regulation Authority: September 2016"¹³, for which AEMO allocated costs associated with market development activities to its proposed budget for the WA Market Reform Program.

However, AEMO anticipates that the recent commencement of the Rule Change Panel will see WEM rule change activity gather pace in the coming months, particularly until there is clarity on the broader reform program. In addition, the ERA is expected to undertake some of the periodic reviews required by the WEM Rules. This will see AEMO's role in market development activities approach a 'business as usual' level, in addition to the broader market reform program (though some synergies between these activities would be expected).

AEMO advises that the incremental cost to its budget for the activities described in this Rule Change Proposal is unclear at this point due to uncertainty over the broader reform program, and that it may fluctuate from time to time with the pace of regulatory change progressed, both via the broader reform program and via the Rule Change Panel. However, AEMO does not presently foresee that the final post-reform resource allocation would exceed three full-time equivalent personnel plus some external consultant support.

AEMO does not consider that this resource allocation represents an additional cost to the market, as other entities would need to perform these activities in the event that this proposal was rejected and AEMO was not resourced appropriately. Notwithstanding this, AEMO would seek to minimise the incremental resource allocation through alignment with corresponding processes and personnel. For example, AEMO anticipates that some synergies would be expected with its EMR-related market development activities, for which the ERA has recently

¹³ Available at <https://www.erawa.com.au/electricity/wholesale-electricity-market/determinations/independent-market-operator-imo-system-management-and-australian-energy-market-operator-aemo-allowable-revenue>.

approved an adjustment to AEMO's Allowable Revenue up until the end of 2017¹⁴, and with activities in the other markets that AEMO serves (while ensuring that work and time are adequately monitored to avoid cross-subsidies between the various market fees).

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¹⁴ 'Final Determination - Adjustment to AEMO Allowable Revenue 2016-2019', available at <https://www.erawa.com.au/electricity/wholesale-electricity-market/determinations/independent-market-operator-imo-system-management-and-australian-energy-market-operator-aemo-allowable-revenue>.

Agenda Item 7: Proposed Terms of Reference for AEMO Procedure Change Working Group

Meeting 2017-02: 14 June 2017

1. Background

During the 1 May 2017 MAC meeting members agreed that:

- the two existing procedure change Working Groups (the IMO Procedure Change and Development Working Group and the System Management Procedure Change and Development Working Group) should be disbanded;
- a new, standing Working Group should be established to assist the MAC in providing advice to AEMO (including in its capacity as System Management) regarding its Procedure Change Proposals;
- the Rule Change Panel and the Economic Regulation Authority should seek advice on their Market Procedures either directly from the MAC or, for more complex Market Procedures, from procedure-specific Working Groups established by the MAC on an as-required basis; and
- RCP Support should prepare draft Terms of Reference for the new Working Group for MAC review.

2. Proposed Terms of Reference

The proposed Terms of Reference for the AEMO Procedure Change Working Group (APCWG) are attached to this paper. The Terms of Reference have been developed in consultation with AEMO and reflect the design concepts agreed by MAC members at the 1 May 2017 MAC meeting.

3. Associated Changes to Administration Procedure

The Rule Change Panel plans to progress a Procedure Change Proposal to reflect the proposed Working Group changes in the Market Procedure: Procedure Administration (Administration Procedure).

RCP Support has reviewed the Administration Procedure and suggests the following changes be made to section 2.2.

2.2. Consideration by a Market Advisory Committee Working Group

- 2.2.1. *The Market Advisory Committee (MAC) is an advisory body comprised of industry representatives and convened by the Rule Change Panel. The MAC is established pursuant to clause 2.3.1 of the Market Rules and one of its roles is to advise the IMO, AEMO (including in its capacity as System Management), the ERA and the Rule Change Panel regarding Procedure Change Proposals.*

- 2.2.2. *The MAC may establish Working Groups comprising representatives of Rule Participants and interested stakeholders, to assist it in providing advice to the Responsible Procedure Administrators on Procedure Change Proposals [MR 2.3.17].*
- ~~2.2.3. *The MAC has established the following Working Groups to consider proposed amendments to Market Procedures before a proposal is submitted into the formal Procedure Change Process:*~~
- ~~(a) *The IMO Procedure Change and Development Working Group; and*~~
- ~~(b) *The System Management Procedure Change and Development Working Group.*~~
- 2.2.3. *The MAC has established the AEMO Procedure Change Working Group to consider proposed amendments to Market Procedures (including Power System Operation Procedures and the Monitoring and Reporting Protocol) for which AEMO is the Responsible Procedure Administrator.*
- 2.2.4. *In addition to the ~~general Working Groups referred to in step 2.2.3 of this Procedure~~ AEMO Procedure Change Working Group, the MAC can initiate Working Groups to consider amendments to a specific Market Procedure, for example the Maximum Reserve Capacity Price Working Group. Further details of the current existing active Working Groups, including those associated with advising the Responsible Procedure Administrators on potential Procedure Change Proposals are available on the Rule Change Panel's website.*
- 2.2.5. *The Responsible Procedure Administrator may convene an existing active Working Group established by the MAC to discuss a Procedure Change Proposal either before submitting it into the formal Procedure Change Process or during the formal Procedure Change Process.*
- 2.2.6. *A Responsible Procedure Administrator may seek advice on a Procedure Change Proposal directly from the MAC if no Working Group has been established to consider amendments to the relevant Market Procedure.*
- ~~2.2.67. *Prior to formal submission of a Procedure Change Proposal, the Responsible Procedure Administrator must notify members of the appropriate ~~existing~~ active Working Group (noted in either step 2.2.3 or 2.2.4 of this Market Procedure if one exists) as to whether any proposed amendments to the Market Procedure require discussion by the Working Group and the reasons why.*~~

RCP Support is seeking the views of MAC members on:

- the proposed amendments to section 2.2 shown above; and
- what further amendments to the Administration Procedure, if any, should be made.

4. Recommendations

It is recommended that the MAC:

- approves the proposed Terms of Reference for the AEMO Procedure Change Working Group;
- discusses the proposed amendments to section 2.2 of the Administration Procedure; and
- discusses what further changes to the Administration Procedure, if any, should be made.

Appendix A. APCWG Draft Terms of Reference

AEMO Procedure Change Working Group Terms of Reference

14 June 2017

1. Background

The AEMO Procedure Change Working Group (APCWG) has been established, in accordance with clause 2.3.17 of the Market Rules and section 9 of the Constitution of the Market Advisory Committee (MAC). The APCWG has been established to assist the MAC in fulfilling its obligation under clause 2.3.1(b) of the Market Rules to provide advice to AEMO (including in its capacity as System Management) regarding Procedure Change Proposals.

2. Scope of Work

The APCWG's scope of work includes consideration, assessment and development of changes to Market Procedures (including Power System Operation Procedures and the Monitoring and Reporting Protocol) which the Market Rules require AEMO to develop.

Either the MAC or AEMO may directly refer an issue to the APCWG. Generally, issues referred to the APCWG will relate to Procedure Change Proposals.

3. Membership

The APCWG has a Chair appointed by AEMO. AEMO may replace the Chair at any time and must promptly advise the MAC via the RCP Secretariat.

To accommodate the broad range of subject matter to be covered, the APCWG has no permanent members apart from the Chair. Instead the Minister for Energy, the Economic Regulation Authority, the Rule Change Panel and each Rule Participant may:

- nominate a representative to attend an APCWG meeting by advising the APCWG Secretariat in advance of that meeting;
- with the permission of the APCWG Chair, send additional representatives to an APCWG meeting; and
- register to receive information relating to the activities of the APCWG, including notification of upcoming meetings, meeting papers and documents distributed out-of-session, by providing an email address for such correspondence to the APCWG Chair.

Other stakeholders may attend APCWG meetings or register to receive information relating to the activities of the APCWG following approval of the APCWG Chair.

4. Responsibilities of Meeting Attendees

A person attending an APCWG meeting is expected to:

- prepare for the meeting, including by reading any meeting papers distributed before the meeting;
- participate as a general industry representative rather than representing their company's interests; and
- have sufficient expertise to discuss the subject matter to be covered.

5. Administration

The secretariat for the APCWG will be provided by AEMO.

AEMO must maintain contact details for the APCWG on the Market Web Site.

The APCWG Chair will convene the APCWG upon request from AEMO or the MAC Chair.

AEMO will prepare and distribute all meeting correspondence via email to the APCWG. At least once per year, AEMO will contact MAC members and its WA Electricity Consultative Forum stakeholder group to invite interested stakeholders to subscribe to APCWG notifications.

AEMO will provide the following documentation by email to its APCWG stakeholder list in respect of an APCWG meeting:

- notice of meeting and agenda at least 10 Business Days prior to the meeting;
- relevant meeting papers at least 5 Business Days prior to the meeting;
- draft minutes no more than 5 Business Days following the meeting; and
- final minutes no more than 10 Business Days following the meeting.

Except for draft minutes (which will only be emailed to attendees for comment), meeting documentation will be published on the Market Web Site as soon as practicable after issuance to the APCWG stakeholder list.

Attendees will be expected to:

- advise the APCWG Secretariat of intended attendance at an APCWG meeting at least 5 Business Days prior to the meeting; and
- provide any feedback or endorsement to the draft minutes no more than 5 Business Days following distribution of the draft minutes.

Meeting minutes are to record meeting attendance, main points of discussion, agreed recommendations and action items.

Where AEMO considers that a meeting is unnecessary or impractical in respect of a particular Market Procedure issue or proposal, AEMO may choose to distribute Market Procedure documentation to the APCWG out of session¹. In this case, AEMO must provide stakeholders with at least 10 Business Days to provide feedback (by email) on the issue or proposal.

¹ For example, this option may be preferred where minor changes to a single Market Procedure are being proposed,

6. Reporting Arrangements

The APCWG must provide a report to the MAC on the activities of the APCWG at each MAC meeting. The APCWG must also report back at other times requested by the MAC on issues referred to the APCWG by the MAC.

The periodic report to MAC must include, at a minimum:

- details of the most recent meeting, including the date of the meeting and a list of the issues or proposals considered;
- the date of the next meeting and the issues or proposals to be considered (if known); and
- to the extent known, the future schedule of meetings and matters to be considered.

7. Contact Details

Market Participants and other stakeholders may contact the APCWG Secretariat at ProcedureChangeWorkingGroup@aemo.com.au. Documentation and information related to the APCWG will be published on the Market Web Site at [xxxxxxxxxxxxxxxxxxxxxx](#).

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