



Minutes

Transformation Design and Operation Working Group – Meeting 35

Time: 9.30am – 11.30am
Date: 19 April 2021
Venue: Online meeting via teams
Wonderful Attendees:

Name	Organisation	Name	Organisation
Aditi Varma	ETIU	Manuel Arapis	ERA
Adnan Hayat	RCP Support	Mark McKinnon	Western Power
Andrea Chapman	Synergy	Mark Riley	AGL
Aniruddha Deshpande	Neoen	Megan Ward	Neoen
Antonia Cornwell	Synergy	Natalie Robins	RCP Support
Ashwin Raj	ETIU	Noel Schubert	Independent
Bobby Ditric	Lantau Group	Oscar Carlberg	Alinta Energy
Brad Huppatz	Synergy	Patrick Peake	Perth Energy
Clayton James	AEMO	Paul Arias	Bluewaters
Dominic Re	ERA	Rachelle Gill	EPWA
Donna Tedesco	ERA	Rajat Sarawat	ERA
Dora Guzeleva	ETIU	Rhiannon Bedola	Synergy
Emma Forrest	ERA	Richard Pepler	Western Power
Erdem Oz	ERA	Rob Chandler	Western Power
Erin Stone	Point Global	Sam Lei	Alinta Energy
Gian Garttan	Synergy	Sandra Ng Wing Lit	RCP Support
Glen Carruthers	Western Power	Sarah Graham	ETIU
Graham Pearson	AEC	Sara O'Connor	ERA
Greg Ruthven	AEMO	Sarah Silbert	AGL
Harry Street	Entego Energy	Simon Orne	RBP
Hubert Liu	AEMO	Simon Middleton	AEMO
Ignatius Chin	Energy Market Consulting	Stacey Fontein	Western Power
Irina Stankov	ERA	Stephen Eliot	ERA
Jacinda Papps	Alinta	Steven Kane	ETIU
Jenny Laidlaw	ERA	Tim Robinson	RBP
Jo-Anne Chan	Synergy	Trevor Griffiths	AEMO
Judy Hunter	Western Power	Toby Price	AEMO
Justin Ashley	Synergy	Tom Frood	Bright Energy Investments
Kang Chew	AEMO	Victor Francisco	PSC
Kei Sukmadjaja	Western Power	Vincent Blo	Kleenheat
Katie Franklyn	Tersum Energy	Wendy NG	ERM Power
Laura Koziol	ERA	Quentin Jeay	Kleenheat
Linh Nguyen	Chamber of Minerals and Energy		

Meeting minutes should be read in conjunction with meeting slides.

Item No.	Issue
Slide 1 - 4	Dora Guzeleva (DG) opened the TDOWG meeting 35 and outlined the agenda.
1.	Operating Protocol – Sarah Graham (ETIU) and Clayton James (AEMO)
Slide 5	<p>Sarah Graham (SG) gave a brief overview of the new WEM Rules for the Operating Protocol, noting:</p> <ul style="list-style-type: none"> • The rules are currently specific to Western Power and AEMO, however the intent is to provide industry with a brief summary of their purpose before they are gazetted. • The Protocol currently exists as an informal agreement between Western Power and AEMO. • New section 3.1A provides a head of power for the joint development of the Protocol and a list of mandatory Items to be included.
Slide 6	<ul style="list-style-type: none"> • SG noted that workshops with WP/AEMO identified the opportunity for AEMO to optimise voltage levels as the power system becomes more constrained. • Draft rules provide AEMO with the power to determine a Secure Operational Voltage Envelope • As there is likely to be a transition period, Western Power will only have to operate within the secure envelope where they are able to.
Slide 7	<p>Clayton James (CJ) gave a brief overview of the practical operation of the Operating Protocol, including:</p> <ul style="list-style-type: none"> • Operating Zones segregate the SWIS into areas that have a material impact on PSSR, putting processes around monitoring of the zones and information sharing between AEMO/WP – e.g. information on equipment status, operating modes etc. • General operational communication processes relate to how the two control rooms operate and how information is shared between them. • General processes around Islands which includes the interaction between AEMO/WP on management and restoration, generation dispatch and network operation in an Island. • Processes for managing emergencies, e.g. communication during significant storm or bushfire events and the delegation of functions like emergency frequency control. • Load shedding and restoration processes and the obligations on WP/AEMO, e.g. in an UFLS event this would describe how a staged restoration would be managed. • Sharing of information between WP/AEMO relating to ST and MT PASA processes – e.g. allowing for information to be shared on system outages. • Processes around the coordination of network outages, generation dispatch and constraint management. <p>Mark McKinnon (MM) asked if the mandatory list is minimum or maximum list?</p> <ul style="list-style-type: none"> • CJ answered yes – the intent is that this is a minimum list and SG clarified that the rules allow WP/AEMO to add additional items where necessary <p>MM asked how much of the Protocol would be made public?</p> <ul style="list-style-type: none"> • CJ noted that a version would be made public with items like phone numbers removed.
2.	Market Power Mitigation – Dora Guzeleva (ETIU)
Slide 9	<p>DG provided an introduction to the Market Power Mitigation consultation, noting:</p> <ul style="list-style-type: none"> • Today's discussion will be based on the consultation paper containing Taskforce proposals for Market Power Mitigation measures for the new WEM – with responses due by 28 April 2021. • Ex-ante measures involve the setting of rules restricting behaviours before any exercise of market power can occur. • Various examples in North America where regulators use tests for market power and then regulate prices where firms are likely to exercise undue influence. <ul style="list-style-type: none"> ○ Measures require detail and are very involved, often arising in older markets within the context of network constraints. ○ Not necessarily suitable for the WEM. • Trade-offs for both, with ex-ante potentially overly restrictive, and ex-post measures creating uncertainty especially if there are not specific conduct rules.

<p>Slide 10</p>	<ul style="list-style-type: none"> • Key central concept is the expectation that facility offers in competitive wholesale markets must approximately equal their variable costs. • Regulators very likely to apply SRMC either in their administered pricing or investigations. <ul style="list-style-type: none"> ◦ there's a lot of discussion and change in this space as to what constitutes variable costs. • The WEM will retain one-part offers which complicates market power surveillance. • Other generators in the WEM are becoming increasingly capable of exercising market power.
<p>Slide 11</p>	<ul style="list-style-type: none"> • DG noted that currently there are ex-ante price caps in the WEM, determined annually. <ul style="list-style-type: none"> ◦ In the past AEMO was required to apply methodologies in the Rules, and ERA would conduct their own analysis on maximum and alternative maximum STEM prices. ◦ In the future, under energy sector governance changes, the ERA will have sole responsibility for setting the caps. • The unique reserve capacity market in the WEM drives the need for those caps, the caps are much lower than in energy only markets. • Due to the RCM, there are obligations on participants to offer in the day ahead and balancing markets. • Provisions in the rules state that participants must not offer in excess of SRMC. <ul style="list-style-type: none"> ◦ DG highlighted calls from a number of participants to define what SRMC and market power mean and noted this is one of the aims of the Taskforce's proposals.
<p>Slide 12</p>	<ul style="list-style-type: none"> • DG outlined the deficiencies in the current regime, highlighting that current regulatory uncertainty means participants are not clear about obligations or how their offers will be treated in reality.
<p>Slide 13</p>	<p>DG highlighted some key observations:</p> <ul style="list-style-type: none"> • The design changes in the new market will improve efficiency, however some would increase the potential for participants to exercise market power. • Ability to exercise market power increases when gate closure moves closer to real-time and participants have ability to act opportunistically. Regulators pay close attention here. • The constrained access regime will reduce investment in networks, which would create concerns that if participants know they have to be dispatched to clear demand, they will be able to exercise market power. <p>Jo-Anne Chan asked, in regard to Synergy dispatch, can you please explain the rationale behind why is it necessary for "market participants to scrutinise Synergy's trading behaviour and adjust their positions accordingly"? page 4 of the consultation paper.</p> <ul style="list-style-type: none"> • DG said that when the market started in 2006 a key market power mitigation measure was to close the gate for Synergy much earlier than other participants, and as a consequence Synergy could not react to changes in the market. In the new market all participants will have the same gate closure. • JC noted the wording of the paper suggests participants will still be able to monitor Synergy's behaviour. • Mark Riley (MR) noted this could refer to the change to facility bidding. DG said there is distinction between facility bidding and gate closure time and noted she will review page 4 in the final paper.
<p>Slide 14</p>	<p>DG outlined the proposed market mitigation arrangements.</p> <ul style="list-style-type: none"> • The Taskforce's key objective is to reduce reliance on ex-post investigations, and reduce the uncertainty experienced by participants under the current regime. • Trading conduct guidelines will likely be a series of examples of what may constitute unacceptable behaviour, similar to recent guidance issued by the ACCC. • Safe trading envelope to be comprised of trading conduct obligations in the rules, guidelines from the regulator as referred to above, and offer construction guidelines which would cover what costs can be included in offers in the presence of market power. • Additional measures and more prescriptive rules for internal governance only applied to participants who meet a market power test (the pivotal supplier test). • In response to participants concerns, the Taskforce proposes to remove the direct reference to SRMC and replace it with requirement to make offers consistent with those which would be made in the absence of market power. • ERA will have a role in the ESS market in detecting the presence of market power and could trigger competitive SESSM process by AEMO. <p>Jenny Laidlaw (JL) asked whether Summit Southern cross would be treated as one participant or three?</p>

	<ul style="list-style-type: none"> • DG said that the ERA would look at the behaviour of specific facilities and noted some thought would need to go into participants with multiple facilities. <p>MR asked - wouldn't a safe trading envelope have to be dynamic, depending on how much is offered and how much other generation is available in the market?</p> <ul style="list-style-type: none"> • DG said the safe trading envelope will be static as it is based on published guidelines. How often the market power test is run and whether this would change from time to time has the potential to be more dynamic. If somebody had the ability to exercise market power the ERA will become more involved in surveying activities. • MR noted that what this also means is the affected participant would need to know its criteria/threshold. DG responded that all participants will be able to determine if they meet the pivotal supplier test based on published information. <p>Rhiannon Bredola (RB) asked if the safe trading envelope is applied to all participants?</p> <ul style="list-style-type: none"> • DG noted the safe trading envelope is a series of guidelines to assist participants to comply with the regime. <p>Natalie Robbins (NR) asked would agreement (or pre-approval of parameters) between ERA and Market Participants obviate Market Participants from their compliance obligations - putting the onus back on the ERA?</p> <ul style="list-style-type: none"> • DG noted that if the ERA agreement is binding. <p>Patrick Peake (PP) noted that the ESS market is likely to be the driver for investment in storage and additional dispatchable generation. It would be good to get the ERA's expectations of price caps now, rather than waiting until 2022. Also, the risk that the ERA will change the ESS caps will be a potential disincentive to invest in new capacity that can provide ESS.</p> <ul style="list-style-type: none"> • DG said good observation however unlike in the current market, the caps will be set only every 3 years.
<p>Slide 15</p>	<p>DG continued with an overview of how the proposed arrangements fit together.</p> <ul style="list-style-type: none"> • Illustration of how everything will work ex-ante, real-time and ex-post. • DG highlighted that rules created here still need to comply with the Competition and Consumer Act 2010. <ul style="list-style-type: none"> ◦ ACCC guidelines suggest they will not initially focus on WA and the Northern Territory. • If, following the Safe Trading Envelope Test and the Effect Test, a participant is found to have impacted market outcomes, then the ERA can commence a more detailed investigation and apply remedies itself rather than going to the Electricity Review Board. <p>RB asked if you aren't Pivotal, but then become pivotal later, how quickly do they have to start record keeping? Without the history ERA will be limited on ability to investigate them.</p> <ul style="list-style-type: none"> • DG noted the ERA need to be equipped to run tests at the start of the market – a number of participants will be captured, and they will need time to create internal governance and controls. Some basic record keeping data is already required to be kept by participants under the current rules. <p>JL asked would a participant have to stay within its safe trading envelope (or even have to have one) when it was not a pivotal supplier?</p> <ul style="list-style-type: none"> • DG said the ERA will only apply detailed surveillance to those determined as pivotal suppliers. <p>Dominic Regnard (DR) asked what about participants who are regularly pivotal only in a regional sense due to network constraints? Are there any thoughts on how this will be measured or tested for? If market power is present will this lead to similar obligations as a participant who is pivotal in a whole of market sense?</p> <ul style="list-style-type: none"> • DG said yes, those participants will be subject to surveillance because demand would not be met without them. They will also have a constrained on compensation provided to them. • MR asked would these arrangements apply if an area is islanded and how would participants know when they do apply? DG noted that the proposal of the Taskforce is for a transparent regime where participants know what applies and when. This detail will be in the guidelines. • TR noted it is fairly standard and it should be possible for AEMO to calculate whether participants are pivotal for every binding constraint. <p>JC asked - is it anticipated that there will always be a pivotal supplier at all times? Or can there be periods with no pivotal supplier? Will there be pivotal suppliers for each of the 5 ESS, STEM and RT markets?</p> <ul style="list-style-type: none"> • DG noted pivotal suppliers will be detected over peak intervals or over high-outage periods but not necessarily in every interval. <p>AC asked can there be multiple pivotal suppliers?</p> <ul style="list-style-type: none"> • DG said yes there can be.

<p>Slide 16</p>	<ul style="list-style-type: none"> • DG highlighted that the Max STEM price has been reached very infrequently since the start of the balancing market. <p>Oscar Carlberg asked - how do we make sure the guidelines developed by the ERA do not cause the same uncertainty and potential for inefficiency as the current SRMC obligations. EPWA's and Brattle's last paper on this argued against prescriptive guidance on offers.</p> <ul style="list-style-type: none"> • DG noted that rules and guidelines will focus on providing detail with clear examples so participants know in advance in what circumstances they can recover costs etc. <p>JC asked - is it intended that the production of the guidelines will be a consultative process? Also, will there be appeal/negotiation mechanisms if the participant has a different opinion to the ERA on the guidelines?</p> <ul style="list-style-type: none"> • DG noted there is no intention to remove appeals process but that ultimately ERA has the final say. <p>PP noted the consultation paper talks of determining the "value" of gas rather than its cost. This is sound but is there any thought on how this value might be estimated with respect to offers?</p> <ul style="list-style-type: none"> • DG said yes but the details still need to be worked through.
<p>Slide 17</p>	<p>DG outlined the new approach to energy price caps.</p> <ul style="list-style-type: none"> • The Taskforce is proposing to shift the determination of price caps to be less frequent (3 years) and principle based. • Single price cap in energy market is proposed, which would continue to be based on highest cost in the fleet but will have less prescription in the rules.
<p>Slide 18</p>	<ul style="list-style-type: none"> • Moving from administered price to fully competitive market for all ESS. • Having ESS markets with no cap creates concerns for consumers and price volatility. • While we have SESSM, there will be a time lag. <p>RB asked what about any future facilities with lower capacity credits (due to limited or no NAQs). Will these facilities be able to make small return over the long run and be able to include any of their "fixed" costs in their offers?</p> <ul style="list-style-type: none"> • DG noted that, while participants with market power can only bid their variable costs, the single market clearing price means that facilities are able to recover fixed costs as well as energy costs in the market. TR said what is reasonable in the circumstances would be determined by the ERA in offer construction guideline. • PP noted that, because of the increasing proportion of very low marginal cost facilities, dispatchable generators will not be able to recover their fixed costs in the future. DG said this is out of scope for the market power mitigation framework. <p>Ben Skinner said there is no capacity mechanism to support investment in ESS, so market power controls can dangerously risk undermining investment in ESS facilities. We need to ensure the ESS market can get to a point that encourages new entrants - large scale batteries - to ultimately provide those critical services.</p> <ul style="list-style-type: none"> • DG noted that everybody providing ESS would also want to secure capacity credits. SESSM will be triggered in event of shortfall and will provide capital cost contribution to the successful proponents. BS said capacity contributions should not be used as subsidy for providing ESS as traditional providers of ESS will decline.
<p>Slide 19</p>	<ul style="list-style-type: none"> • DG encouraged submissions and suggested contacting ETIU if any one on one sessions are required. • There will be a second round of consultation before the amending rules are developed.
<p>Rule Drafting Timeline – Dora Guzeleva</p>	
<p>Slide 20</p>	<ul style="list-style-type: none"> • Late May Tranche 4 set of rules are intended to be published. • Several corrections to Chapter 4 RCM rules – to facilitate the new cycle commencing 1 July 2021. • Ministerial instrument will also make some changes to transitional registration and participation rules. • ETIU expects to have Tranche 4B around July 2021 relating to additional changes to RCM and NAQ rules, as well as PSSR framework changes.