xMinutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	8 June 2023
Time:	9:30am –11:30am
Location:	Microsoft Teams

Attendees	Class	Comment
Sally McMahon	Chair	
Martin Maticka	Australian Energy Market Operator (AEMO)	
Toby Price	AEMO	Proxy for Dean Sharafi
Mark McKinnon	Network Operator	Proxy for Zahra Jabiri
Genevieve Teo	Synergy	
Noel Schubert	Small-Use Consumer Representative	
Christopher Alexander	Small-Use Consumer Representative	
Timothy Edwards	Market Generator	
Jacinda Papps	Market Generator	
Adam Stephen	Market Generator	
Paul Arias	Market Generator	
Peter Huxtable	Contestable Customer	
Patrick Peake	Market Customer	
Noel Ryan	Observer appointed by the Minister	
Rajat Sarawat	Observer appointed by the Economic Regulation Authority (ERA)	

Also in Attendance	From	Comment
Dora Guzeleva	MAC Secretariat	Observer
Laura Koziol	MAC Secretariat	Observer
Shelley Worthington	MAC Secretariat	Observer
Grant Draper	Marsden Jacob Associates (MJA)	Presenter

Apologies	From	Comment
Geoff Gaston	Change Energy	
Dean Sharafi	AEMO	
Zahra Jabiri	Western Power	

Item	Subject	Action
1	**Welcome** The Chair opened the meeting at 9:30am with an Acknowledgement of Country. The Chair noted that MAC members are to participate in the interests of the stakeholder group they represent.	
2	**Meeting Apologies/Attendance** The Chair noted the attendance and apologies as listed above.	
3	**Minutes of Meeting 2023_04_20** The MAC accepted the minutes of the 20 April 2023 meeting as a true and accurate record of the meeting, subject to correcting Mr Stephen's name in the list of attendance. **Action: The MAC Secretariat to publish the minutes of the 20 April 2023 MAC meeting on the Coordinator's Website as final.**	**MAC Secretariat**
4	**Action Items** The paper was taken as read. The MAC noted that there were no open action items.	
5	**Market Development Forward Work Program** The paper was taken as read. • Mrs Papps questioned the value of undertaking the MAC Review at this time, given the large workload under the Wholesale Electricity Market (WEM) reform program. The Chair suggested discussing this under Agenda Item 10. • Mrs Papps suggested that a roadmap needs to be developed of the priorities for the WEM reform program.	
6	**Update on Working Groups**	
	(a) AEMO Procedure Change Working Group (APCWG) The paper was taken as read. Mr Maticka noted an APCWG meeting was held 6 June 2023. The purpose was to discuss upcoming Procedure Change Proposals to amend the WEM Procedure: Supplementary Capacity; and the WEM Procedure: Reserve Capacity Security. .	
	(b) RCM Review Working Group (RCMRWG) Update	

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The paper was taken as read.

The Chair noted that MAC members are being asked to note the updates on activities since the last MAC meeting, including the:

- minutes from the RCMRWG meeting on 22 March 2023; and
- publication of the RCM Review: Information Paper (Stage1) and Consultation Paper (Stage 2) on 3 May 2023.

Ms Guzeleva noted that a record number of submissions were received on the RCM Review: Consultation Paper (Stage 2), including from respondents who had not previously provided submissions, and noted:

- the consultation period had been extended by a week and just closed two days ago, so submissions had not yet been assessed;
- stage 1 of the RCM Review was now complete from a policy perspective and drafting of the Amending Rules had commenced; and
- another meeting of the RCMRWG will be scheduled at a later date.

(c) Demand Side Response Working Group (DSRWG) Update

The Chair noted that MAC members are being asked to note the updates on activities since the last MAC meeting including the minutes from the DSRWG meeting on 10 May 2023.

Ms Guzeleva noted that:

- the DSRWG consisted of around 20 members, including members who had not previously participated in other MAC working groups, and there was considerable interest in ensuring that the demand side achieves its potential and adds value in the market;
- a DSRWG meeting was held on 7 June 2023 and the minutes from that meeting would be available soon. The meeting covered two topics:
    - access and connection arrangements for load; and
    - hybrids and how they participate in the RCM and in the WEM more generally;
- there was interest regarding how load would be connected in constrained parts of the network in the future and the interaction with the WEM, if load is connected under run back schemes;
- with regard to hybrids there was discussion about metering and allowing participants to have a choice of alternative arrangements for the connection of hybrids, containing loads, to ensure that value is added without double dipping; and
- further meetings would be held in July and August 2023 and the MAC would be updated accordingly.

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7	**Rule Changes** **(a) Overview of Rule Change Proposals** The paper was taken as read. Ms Guzeleva noted that the following would be published by 30 June 2023: • a Draft Rule Change Report for RC_2014_05, which was proposed by the IMO and deals with reduced frequency of the review of Energy Price Limits and the Maximum Reserve Capacity Price; • a Draft Rule Change Report for RC_2018_03, which was proposed by Collgar and deals with the Capacity Credit allocation for methodology for Intermittent Generators; and • an Extension Notice for RC_2019_01, which was proposed by EnelX and deals with the Relevant Demand calculation. The deadline for publishing the Draft Rule Change Report for RC_2019_01 will be extended to September 2023 because its subject matter is addressed in stage 2 of the Reserve Capacity Mechanism (RCM) Review. The date will align with the timing for publishing the Final Rule Change Report for RC_2019_03, which is the ERA's proposal to amend the method for assigning Certified Reserve Capacity to Intermittent Generators.	
8	**Draft Cost Allocation Review Information Paper** The MAC noted the minutes from the Cost Allocation Review Working Group (CARWG) meeting on 9 May 2023 and that EPWA had circulated a draft of the Cost Allocation Review Information Paper for discussion by the MAC. Ms Guzeleva noted that the Cost Allocation Review Consultation Paper was published in December 2022, that submissions closed in February 2023, and that EPWA assessed the submissions and held a number of CARWG meetings to discuss the remaining issues. The Chair asked Ms Guzeleva to lead the MAC through a discussion of the Review Outcomes in the Information Paper. Ms Guzeleva indicated that the Information Paper will be the final paper for the review and asked the MAC for any final comments before it is published on 15 June 2023. <u>Market Fees</u>: Ms Guzeleva noted that the conclusion was not to change the allocation of Market Fees because there was no benefit of doing so but there would be costs associated with making changes. Ms Guzeleva noted that there was a question in the Consultation Paper about whether Electric Storage Resources (ESR) should be allocated Market Fees based only on injection or withdrawal from the system.	

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	Ms Guzeleva indicated that AEMO made some strong arguments as to why it may not be a good idea to treat ESR, particularly hybrids containing ESR, differently so the Review Outcome is to treat ESR the same as generators, for which Market Fees are allocated based on both injections and withdrawals. The MAC did not provide any comments or raise any concerns regarding the Review Outcomes for Market Fees. <u>Regulation Services</u>: Ms Guzeleva indicated that the Review Outcome was to roll out the WEM Deviation Method to allocate costs for Regulation Raise and Regulation Lower, by October 2025. Ms Guzeleva clarified the explanation in the draft Information Paper of the straight line targets against which deviations will be measured as follows: • for Scheduled Facilities and Semi-Scheduled Facilities that provide Essential System Services (ESS) the paper indicates that the line will be from the Facilities' previous Dispatch Target to their current Dispatch Target but, instead, this should be from the Facilities' actual four-second SCADA measurement at the start of the Dispatch Interval; and • for Non-Dispatchable Loads, it will be a straight line between the implied four-second SCADA metering measurements at the start of the Dispatch Interval and the overall Dispatch Forecast less the SCADA measurement for Non-Dispatchable Loads on SCADA. • Mr Schubert noted that the paper indicates that a calculated metering value will be derived for residual Non-Dispatchable Loads (those without SCADA metering), by deducting the SCADA values for Non-Dispatchable Loads with SCADA metering from the sum of all Energy Producing Systems' injection over 4 seconds. Mr Schubert asked if this means that the residual Non-Dispatchable Loads will bear the impact of line losses. Ms Guzeleva indicated that the WEM Deviation Method does not allocate costs on the basis of actual consumption or generation, but on deviations from the line, so line losses should not make a difference. Mr Draper agreed, and noted that line losses are relatively constant over a five-minute Dispatch Interval, so they would not significantly impact calculation of the deviations. • Mr Schubert agreed. • Mrs Papps indicated that Alinta has no major concerns with the WEM Deviation Method, but noted that the paper	

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	indicates that the method is simple to implement and can be implemented at moderate cost. • Mrs Papps expressed concern with the large number of changes being made through the WEM reform program and suggested that a committee is needed to provide oversight of priorities and consider workloads, similar to the Reform Delivery Committee used in the National Energy Market (NEM). The Chair asked Ms Guzeleva to consider this suggestion, including whether the MAC could fill this role. Ms Guzeleva noted that the WEM Deviation Method would not be implemented until October 2025 to avoid conflict with the new market start and to coincide with commencement of five-minute settlement. Mr Draper agreed that there is a natural interdependency between the WEM Deviation Method and five-minute settlement. Ms Guzeleva indicated that AEMO operates the existing cost allocation method for Load Following Ancillary Services (LFAS) in the NEM using a spreadsheet outside of its systems and that a similar, simple and low cost approach could be used for the WEM Deviation Method. Ms Guzeleva indicated that there would be negative impacts on the amount of Regulation services and the cost of those services if this method is not implemented in 2025. • Mrs Papps indicated that her concern is broader than just the WEM Deviation Method. The Chair asked EPWA to further consider the timing and interdependencies of the various market reforms and whether there should be a roadmap. • Mr Alexander noted the likely efficiency gains from the WEM Deviation Method and that this will benefit consumers, not just add costs, but also expressed concerns with workloads from the reform program. The Chair suggested that possibly the MAC could play a role in advising EPWA on prioritising the pieces of the reform program. • Mr Edwards noted that the WEM is moving closer to real-time dispatch, which is difficult from an engineering perspective, and expressed concern that the proposed cost allocation method relies on four-second SCADA data before we have experience in operating such a market. • Mr Edwards suggested that using a four-second signal to incentivise behaviour may result in Market Participants overshooting their target, which could increase instability. Mr Edwards asked now this risk would be managed. Ms Guzeleva indicated that this risk will be addressed by:	

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	• use of primary frequency response, noting that WEM Deviation Method will remove primary frequency response from the calculation of deviations; and • the WEM deviation method also removing any Regulation Raise and Lower service response from the calculations. Mr Draper noted that the new NEM method to allocate Regulation service costs is much more complex – it penalises those that contribute to deviations and rewards those that reduce deviations, and this is on top of primary frequency response. Mr Draper indicated that the simpler approach proposed for the WEM is partly to avoid problems like what Mr Edwards has raised. Ms Guzeleva indicated that AEMO will have two years of experience in operating the new market arrangements before the WEM Deviation Method is implemented, so the method could be tweaked based on any learning from the market. • Mr Price agreed with Mr Draper that the intent is to have a simpler economic driver to manage deviations, and that this would sit subordinate to AGC and regulation services. The idea is to have different frameworks to incentivise reduction of the volatility of load, and to get generation to more closely match forecasts and be less volatile. • Mr Price noted that the Information Paper lays out the high-level principles for the WEM Deviation Method and speaks to AEMO managing in accordance with those principles, such as by backing out primary frequency response. Mr Price asked if the paper could be clear that this will be specified in the WEM Rules. Ms Guzeleva indicated that EPWA would work with AEMO on drafting the Amending Rules and will publicly consult on the drafting. The details will likely be in an appendix, similar to the appendix that lays out the Runway Method (Appendix 2A). Ms Guzeleva indicated that AEMO would make default forecasts for Semi-Scheduled and Non-Scheduled Facilities but that Market Participants will have a choice to provide their own forecasts, and AEMO will need to make a judgement on which forecast to use in its scheduling and despatch process. The MAC did not make any further comments or raise any other concerns regarding the Review Outcomes for allocating the cost of Regulation services. <u>Contingency Reserve Raise (CRR) Services</u>: Ms Guzeleva indicated that the issue for CRR is an edge case that is currently not addressed in the WEM Rules and that there are some generators comprised of several units or inverters that have separate network connections. The current cost allocation method would consider these units to be a single facility under the	

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	Runway Method in Appendix 2A, which is not fair if the facility can dispatch the separate units independently. Ms Guzeleva indicated that there will be a WEM Procedure for AEMO to allocate facility risk on the basis of an assessment of the largest contingency for the facility in terms of its share in the CRR costs. In response to a question from Mr Arias, Ms Guzeleva clarified that this issue is not about setting the level of the CRR requirement, but about allocating the cost for managing the risk. • Mr Arias suggested that the argument used to not make changes to the allocation of Market Fees could also apply for CRR, in that the change may address some inefficiencies but may not result in benefits for users. Mr Guzeleva indicated that the changes would have a clear benefit in aligning the method better with the causer-pays principle. Mr Draper pointed out that this amendment may also incentivise a different setup for inverters and network connections that may have efficiency benefits. The MAC did not make any further comments or raise any other concerns regarding the Review Outcomes for CRR services. <u>Contingency Reserve Lower (CRL) Services</u>: Ms Guzeleva indicated that one participant had raised concerns with the proposed allocation of CRL costs and that additional option analysis was undertaken to address this concerns. Ms Guzeleva noted that larger loads are likely to connect to the system in the future, which would increase the CRL requirement, and that the current method for allocating CRL costs would not allocate the costs to the causers of this increase. The decision is to use a Runway Method to allocate CRL costs, similar to the method to allocate CRR costs, which will encourage participants to connect to the system in a way that does not rapidly increase the CRL requirement. The MAC did not make any comments or raise any concerns regarding the Review Outcomes for CRL services. <u>Other ESS</u>: Ms Guzeleva outlined the Review Outcomes from the draft Information Paper. • Mr Maticka indicated that the learnings from Project Symphony will soon be available and may suggest that the allocation of some ESS costs may need to be tweaked. <u>Summary Discussion</u>: The Chair sought views from the MAC members that had not yet commented:	

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	• Mr McKinnon indicated that Western Power is happy with the Review Outcomes, but that the WEM Deviation Method may not be as simple as suggested. • Mr Draper pointed out that the conclusion is only that it is simpler than that method that is being implemented in the NEM. • Mr Peake indicated that his only concern is that it will be hard for retailers to estimate some of these costs to allow them to offer 2-3 year contracts. • Ms Teo, Mr Huxtable and Mr Stephen indicated that they had no comments. The Chair thanked the MAC members for their input, noted that the intent is to publish the Information Paper on 15 June 2023 and asked MAC members to provide any additional written comments to EPWA by 3:00 on 9 June 2023.	
	Action: MAC members are to provide EPWA with any further written comments on the draft Cost Allocation Review Information Paper.	**MAC Members (8 June 2023)**

9	**Scope of Works for the WEM Investment Certainty Review**
	The Chair noted that EPWA is seeking support from the MAC to commence the WEM Investment Certainty (WIC) Review and is seeking comments on the draft Scope of Works for the review.
	Ms Guzeleva summarised the background for the WIC Review and indicated that it will cover five initiatives:
	• Initiative 1 is a review of the Reserve Capacity Price (RCP). Ms Guzeleva noted that:
	    • there was a great deal of comment about the RCP during the RCM Review, even though the RCP was recently reviewed in 2018;
	    • the WEM has changed substantially since the last RCP Review, when there was significant overcapacity on the system;
	    • the WEM needs new technologies to enter the market, some of which have different requirements for financing; and
	    • it is not a foregone conclusion that the RCP needs to be changed, assessing the need for change will be part of the review.
	• Initiative 2 is a 10-year RCP guarantee for new technologies. Ms Guzeleva noted that there was a strong push in the RCM Review to extend the current five-year RCM guarantee to 10 or 15 years, especially for new technologies.	

- Initiative 3 is an energy revenue guarantee for renewable generators that firm up their capacity. Ms Guzeleva noted that:
    - the financial modelling in Chapter 6 of the *RCM Review Information Paper (Stage 1) and Consultation Paper (Stage 2)* suggests that:
        - ESR and other technologies will likely be able to continue to make profit; but
        - energy prices will collapse at some point in the 2030s when baseload fossil fueled plant exits the market, and wind and solar generation may not earn sufficient revenue once the LGCs cease;
    - the proposal is to:
        - investigate ways to provide additional energy market revenue, outside of the market dispatch mechanism, to support renewable generators, potentially as a top-up to the level that prices were at before the expected price collapse; and
        - in return for the top-up, require the facilities to demonstrate through the certification process that they have firmed up their capacity.
- Initiative 4 is to finalise the design of the emission thresholds arrangements that were discussed by the MAC and RCMRWG under the RCM Review.
- Initiative 5 is to provide a 10-year exemption from the emissions thresholds for facilities that qualify to provide flexible capacity.

Ms Guzeleva noted that the Minister announced these initiatives on 9 May 2023 and they need to be developed through industry consultation, and that the emissions thresholds is an approved Government policy.

The Chair sought comments from the MAC members:

- Mr Maticka supported the WIC Review and agreed that it is important to fully understand the barriers to investment in new renewable facilities, but suggested that the first step should be to identify the potential barriers to investment and to determine whether the announced initiatives will address those barriers.
- Mr Peake noted that financiers generally do not account for opportunistic ‘bonus’ revenue when considering whether to finance a project, such as potentially higher RCP if capacity is short, but that they tend to account for the potential loss of revenue if the RCP were to fall.
- Mr Peake commented that irrational Government decisions are also a major risk to financing projects.

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	• Mrs Papps supported the WIC Review but suggested that the WIC Review should also consider whether:
	  • any other reforms are needed, such as up-front capital contributions; and
	  • any of the proposed reforms may have perverse incentives, particularly the wholesale energy revenue guarantee.
	• Mrs Papps suggested that the review should first consider initiatives 2, 4 and 5, which are easier to consider, and separate these from initiative 1 and 3, which are more controversial.
	Ms Guzeleva agreed that sequencing is important and sought views from the MAC.
	• Mr Peake sought clarity on what 'new technology' means for Initiative 2 – would it include established technology that is new to the WEM, such as pumped hydro storage, or is it only new technologies, like biofuels.
	Ms Guzeleva indicated that the definition of 'new technology' is to be considered as part of the review and will need to be addressed early in the review.
	• Mr Schubert supported the WIC Review and suggested that the large number of changes that are occurring in the market are barriers to investment.
	Ms Guzeleva indicated that initiatives would likely be implemented at different times, and in particular, that the energy revenue top-up would be implement sometime in the future, but should help provide certainty early.
	Ms Guzeleva noted that the energy industry is undergoing a major transition which cannot be achieved without changes.
	• Mr Schubert sighted the renewable hydrogen target and the emissions thresholds scheme as example of unexpected reforms that create uncertainty.
	• Mr Alexander indicated that the review seems to focus on utility scale resources and not on what can be done to support investment in distributed energy. Ms Guzeleva agreed.
	• Mr Huxtable supported the WIC Review and suggested that it is good to have a structured approach instead of considering ideas from left field.
	• Mr Stephen supported the WIC Review and suggested that the review should incorporate any other ideas identified during the review because, while the plan is currently to complete the review within one year, it will likely take longer.
	• Ms Teo and Mr Arias agreed with Mr Stephen.	

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	• Mr McKinnon and Mr Edwards supported the review. Ms Guzeleva did not support widening the scope of the WIC Review because it was already too complex. In response to a question from Mr Price, Ms Guzeleva pointed out that the WIC Review is not intended to review the fundamentals of the WEM established by the Energy Reform Taskforce and other recent reviews. The objective of the WIC is to address the issue of potential revenue shortfall and implement the emissions thresholds that have been identified/discussed in the RCM Review but could not be addressed. The Chair summarised the MAC's comments that the WIC Review should: • be cognisant of workloads to develop and implement reforms; and • be cognisant of the impact of government intervention on investment. Ms Guzeleva indicated that the WIC Review was not intended to recommend direct cash injections.	
10	**Scope of Works for the MAC Review** The Chair noted that MAC members were being asked to provide support for the commencement of a review of the MAC and the process and the operation of the MAC; and asked the MAC to provide any comments. The Chair noted that Mrs Papps had raised concern with the timing of the review and asked whether the MAC should have a role in the sequencing and prioritisation of the work underway. Ms Guzeleva noted that she believes that much has been achieved in bringing balance to the MAC. She added that the MAC has been run in a more efficient and effective way since early 2022 when the MAC secretariat was transferred to EPWA, the independent Chair came on board and the two consumer representatives were appointed. Ms Guzeleva indicated that the point of the MAC Review was to check whether anything could be done better in terms of the balance of views. Ms Guzeleva expressed concern that the balance was not always achieved, but the intent of the review was not necessarily to implement substantial change, rather to check that the MAC operates in the best way possible. Ms Guzeleva noted the review was not intended to take long, be time consuming or take a lot of resources. • Mr Alexander indicated that the MAC's governance needs to work as well as possible given the amount of work that is to be done over the next few years, and that the approach that was outlined in the Scope of Work (SOW) seemed very sensible.	

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	• Mr Arias and Mr Stephen noted concerns with the timing of the review, and not with a review of MAC governance, as the proposed schedule had much of the work and consultation in August through October, which coincided with a period of significant market reform implementation. The Chair asked Ms Guzeleva if there was opportunity to delay the timing of the review. Ms Guzeleva noted that, while she did not consider it to be an urgent review, it would require less effort compared to other reviews. The review could be postponed to 2024. Ms Guzeleva considered that the MAC should be interested in providing the most effective and efficient advice to the Coordinator. • Mr McKinnon noted that Western Power supports the review and asked if Western Power could have two representatives, regulatory and operational, noting that the WEM was now far more encompassing. Mr McKinnon noted Western Power's preference to start the review earlier rather than later. The Chair noted that representation on the MAC was covered in the Scope of Works for the review. • Mr Edwards supported the review and noted with regard to timing that, if any of the outcomes were likely to change the information on which investment decisions are made, then the review should be undertaken as soon as possible. The Chair noted that Mr Edwards believed that such a review could improve the governance of the MAC and therefore potentially affect investment. • Mrs Papps supported the comments made by Mr Arias and Mr Stephen. • Mr Maticka noted the workload concerns, but noted that he was neutral regarding the timing of the review. • Ms Teo and Mr Huxtable supported the review and the SOW, but shared the other members' concerns regarding the timing. • Mr Peake supported the review and suggested that it could be undertaken independently rather than by EPWA. Ms Guzeleva indicated that EPWA would take on board comments relating to the timing of the review. In response to Mr Peak's suggestion for an independent review, Ms Guzeleva noted that, regardless of the review timing, she would like to hear from MAC members if they have any concerns with EPWA's administration of the MAC or if any improvements can be made. The Chair noted that there was general support for the MAC Review and that consideration would be given as to the timing of the review.	

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	Action: EPWA to consider the timing of the MAC review.	**EPWA**
11	**General Business** Ms Guzeleva noted that EPWA published a Consultation Paper on Stage 2 of the Supplementary Reserve Capacity Review and invited MAC members to make submissions. The Chair indicated that the value of face-to-face MAC meetings would be discussed at the next MAC meeting and asked Mr Maticka to share any of AEMO’s learnings from the solar eclipse. • Mr Maticka noted that an extreme amount of preparation went into the eclipse to ensure everything ran smoothly and that it was a clear day, so the plan went as expected. The next MAC meeting is scheduled for 20 July 2023.	

The meeting closed at 11:30am.