



## Minutes

<b>Meeting Title:</b>	Market Advisory Committee (MAC)
<b>Date:</b>	20 July 2023
<b>Time:</b>	9:30am –11:30am
<b>Location:</b>	Microsoft Teams

<b>Attendees</b>	<b>Class</b>	<b>Comment</b>
Sally McMahon	Chair	
Martin Maticka	Australian Energy Market Operator (AEMO)	
Toby Price	AEMO	Proxy for Dean Sharafi
Zahra Jabiri	Network Operator	To 10:30am
Genevieve Teo	Synergy	
Noel Schubert	Small-Use Consumer Representative	
Christopher Alexander	Small-Use Consumer Representative	
Timothy Edwards	Market Customer	
Jacinda Papps	Market Generator	
Adam Stephen	Market Generator	
Paul Arias	Market Generator	From 9:50am
Geoff Down	Contestable Customer	Proxy for Peter Huxtable
Geoff Gaston	Market Customer	
Patrick Peake	Market Customer	
Noel Ryan	Observer appointed by the Minister	
Rajat Sarawat	Observer appointed by the Economic Regulation Authority (ERA)	

<b>Also in Attendance</b>	<b>From</b>	<b>Comment</b>
Dora Guzeleva	MAC Secretariat	Observer
Laura Koziol	MAC Secretariat	Observer
Shelley Worthington	MAC Secretariat	Observer
Tim Robinson	Robinson Bowmaker Paul	Presenter

Apologies	From	Comment
Dean Sharafi	AEMO	
Peter Huxtable	Contestable Customer	

Item	Subject	Action
1	<p><b>Welcome</b></p> <p>The Chair opened the meeting at 9:30am with an Acknowledgement of Country.</p> <p>The Chair noted that MAC members are to participate in the interests of the stakeholder group they represent.</p> <p>The Chair noted that any advice to the Coordinator from the MAC presents the views of the MAC and not necessarily the views of the Chair</p>	
2	<p><b>Meeting Apologies/Attendance</b></p> <p>The Chair noted the attendance and apologies as listed above.</p>	
3	<p><b>Minutes of Meeting 2023_06_08</b></p> <p>The MAC accepted the minutes of the 8 June 2023 meeting as a true and accurate record of the meeting.</p> <p><b>Action: The MAC Secretariat to publish the minutes of the 8 June 2023 MAC meeting on the Coordinator’s Website as final.</b></p>	<p><b>MAC Secretariat</b></p>
4	<p><b>Action Items</b></p> <p>The Chair noted that there were no open action items, and the paper was taken as read.</p>	
5	<p><b>Market Development Forward Work Program</b></p> <p>The Chair noted the updates in the paper and the paper was taken as read.</p>	
6	<p><b>Update on Working Groups</b></p> <p><b>(a) AEMO Procedure Change Working Group (APCWG)</b></p> <p>Mr Maticka summarised the update in the paper and the paper was taken as read.</p> <p><b>(b) Reserve Capacity Mechanism Review Working Group (RCMRWG) Update</b></p> <p>The paper was taken as read.</p> <p><b>(c) Demand Side Response Working Group (DSRWG) Update</b></p> <p>The Paper was taken as read.</p> <p>The Chair of the DSRRWG noted that:</p>	

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	<ul style="list-style-type: none"> <li>• the working group is very well attended with 20 attendees at the last meeting;</li> <li>• the next meeting will be held on 2 August to discuss participation of Demand Side Programs (DSP) and loads in the Real-Time Market and the Essential System Services (ESS) markets; and</li> <li>• the Consultation Paper was currently been drafted and was planned to be discussed at the 31 August MAC meeting.</li> </ul>	

## 7 Rule Changes

### (a) Overview of Rule Change Proposals

The Chair noted the updates in the paper and the paper was taken as read.

## 8 Terms of Reference for the WEM Investment Certainty (WIC) Review Working Group (WICWG)

The Chair noted that the MAC was asked to:

- note the updated Scope of Work for the WIC Review;
- approve the establishment of a WICWG to assist in the WIC Review; and
- approve the Terms of Reference for the WICWG.

Ms Guzeleva noted that EPWA:

- had amended the Scope of Work to reflect the feedback from the last MAC meeting;
- would seek nominations for the WICWG and that this would not be restricted to MAC members;
- was planning to hold the first meeting of the WICWG in mid-August 2023; and
- will seek to engage a consultant to support EPWA with the analysis.
- Mr Peake asked if the support for renewable resources can be in the form of capital investment support as these are highly capital intensive investments.

Ms Guzeleva indicated that this had been discussed at the last MAC meeting and that contributions to capital investment are out of scope.

- Mr Maticka asked if the priority of the proposed initiatives reflect the priorities for investors.

Ms Guzeleva noted that the schedule for the review has been adjusted to stagger the initiatives as discussed at the last MAC meeting.

- Mr Stephen asked if the timeframe for the review could be extended if significant new issues were identified.

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	<p>Ms Guzeleva indicated that the scope of the review is limited to the five initiatives that have been identified but that the schedule could be extended if more time is required to consider these initiatives.</p> <p>The MAC approved the establishment of the WICWG to assist with the WIC Review and the Terms of Reference for the WICWG.</p>	
<p><b>9</b></p>	<p><b>Update on the Supplementary Reserve Capacity Review</b></p> <p>Ms Guzeleva noted that since the papers had been circulated to the MAC members:</p> <ul style="list-style-type: none"> <li>the Amending Rules have been approved by the Minister and published in the Gazette on Tuesday 18 July 2023; and</li> <li>an Information Paper with the outcomes of the SRC Review have been published on Tuesday 18 July 2023 including marked up Amending Rules; and</li> </ul> <p>Ms Guzeleva noted that the majority of the Amending Rules will commence on 22 July 2023, with the exception of changes to the head of power for the WEM Procedure which will commence on 1 April 2024. This had been requested by AEMO as they have recently published the WEM Procedure for supplementary reserve capacity and are about to commence SRC procurement for this coming summer.</p> <p>Ms Guzeleva noted that another SRC Review will be required following the next call or procurement of SRC, which may lead to further changes next year.</p> <ul style="list-style-type: none"> <li>In response to a question from Mr Arias, Mr Price clarified that AEMO was generally supportive of the testing requirement but noted that the rules over eligibility for SRC required further clarity. Mr Price noted that EPWA had clearly communicated the principles but considered there may be a need to revisit the actual drafting to make it crystal clear which additional capacity AEMO can procure.</li> </ul> <p>Ms Guzeleva noted EPWA had consulted with AEMO throughout this process and that all comments AEMO provided had been addressed.</p> <p>Ms Guzeleva noted that stakeholders had provided very useful feedback and thanked those who had contributed.</p>	
<p><b>10</b></p>	<p><b>Reserve Capacity Mechanism Stage 2 – Information Paper</b></p> <p>Ms Guzeleva indicated that EPWA is working on an exposure draft of the Amending Rules for the implementation of the Stage 1 Review Outcomes and some related Stage 2 issues. Ms Guzeleva indicated that EPWA plans to publish exposure drafts for the implementation of all Review Outcomes for consultation and to hold one or two RCMRWG meetings in August to discuss the drafting.</p> <p>Ms Guzeleva noted that EPWA does not plan to provide draft Amending Rules to the MAC for review before the public</p>	

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	<p>consultation and asked MAC members whether they agreed with this approach.</p> <ul style="list-style-type: none"> <li>Mrs Papps agreed that the RCMRWG was the right body to review the drafting and that a review by the MAC would just extend the timeframe. All stakeholders can review the drafting in detail and make comments during the formal consultation process.</li> </ul> <p>The MAC members agreed with Mrs Papps.</p> <p>Ms Guzeleva and Mr Robinson presented the Review Outcomes in the Stage 2 Information Paper.</p> <p><u>Review Outcome 1 – Individual Reserve Capacity Requirement (IRCR) for Peak Capacity:</u></p> <p>Mr Robinson summarised Review Outcome 1, as presented in Attachment 1 to the cover paper.</p> <p>The MAC did not have any comments on Review Outcome 1.</p> <p><u>Review Outcome 2 – IRCR for Flexible Capacity:</u></p> <p>Mr Robinson summarised Review Outcome 2, as presented in Attachment 1 to the cover paper.</p> <ul style="list-style-type: none"> <li>Mr Edwards suggested that removal of the Non-Temperature Dependent Load (NTDL) status would likely slightly reduce the IRCR for the many Temperature Dependent Loads (TDLs) and result in a larger increase of the IRCR for the few NTDLs.</li> </ul> <p>Mr Robinson confirmed that this is the likely impact.</p> <ul style="list-style-type: none"> <li>Mr Edwards considered that this will add significant cost to a few small industries and that they might look at alternative electricity supply options if their costs for capacity increase too much.</li> </ul> <p>Mr Robinson indicated that NTDLs are also more likely to be able to take steps to reduce their IRCR than TDLs.</p> <p>Ms Guzeleva agreed with Mr Robinson, and pointed out that both NTDLs and TDLs contribute to the Reserve Capacity Requirement, irrespective of whether they have a flat or peaky demand profile, and should both contribute to the cost of capacity.</p> <p>The MAC did not have any other comments on Review Outcome 2.</p> <p><u>Review Outcome 3 – Demand Side Programme (DSP) Certified Reserve Capacity (CRC):</u></p> <p>Mr Robinson summarised Review Outcome 3, as presented in Attachment 1 to the cover paper.</p> <p>The MAC did not have any comments on Review Outcome 3.</p> <p><u>Review Outcome 4 – DSP Dispatch:</u></p> <p>Mr Robinson summarised Review Outcome 4, as presented in Attachment 1 to the cover paper.</p>	

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Mr Robinson provided further clarification on the changes to the 200 hour dispatch limit for DSPs:

- If the dispatch limit was set based on the expected dispatch to serve a 10% POE peak demand forecast, then DSPs would only be dispatched in a very small number of hours per year, but AEMO would need perfect foresight to get the hours exactly right;
- instead, the proposal is to set the dispatch limit by:
  - subtracting the number of current DSP Capacity Credits from the 50% POE peak demand forecast; and
  - determining the number of hours that the demand in the 10% POE peak demand scenario exceeds this value; and
- this will result in a higher dispatch limit when more Capacity Credits are issued to DSPs.

Mr Robinson noted that examples will be added to the Information Paper to show the outworking of the proposed dispatch limit.

- Mr Schubert supported the proposal and Review Outcome 4.
- Mr Stephen pointed out that one DSP, providing 20 MW, has recently been called on multiple occasions, while 80-90 MW of DSP is actually certified, and asked if that was considered in the proposal for the new dispatch limit.

Ms Guzeleva asked AEMO to explain how they dispatch DSPs in real time.

- Mr Price indicated that AEMO would provide an explanation of how it dispatches DSPs at the next MAC meeting.

Mr Robinson indicated that, depending on AEMO's response, consideration could be given to the dispatch of DSPs in the drafting of the WEM Rules.

In response to a question from Mr Edwards, Mr Robinson indicated that there are currently 86 MW of DSP Capacity Credits in the WEM. If AEMO were to perfectly forecast, the DSPs would only be dispatched for two hours in a Capacity Year, whereas the proposed method to determine the dispatch limit would be set at about 20 hours.

Mr Robinson indicated that examples would be added to the Information Paper, but if there were 300-400 MW of DSP Capacity Credits in the WEM, the dispatch limit would be 70-90 hours.

- Mr Edwards suggested that a requirement of 100 hours would not be workable, as industrial loads cannot be offline for this long.

Mr Robinson indicated that:

- the limit would depend on the shape of the load duration curve (LDC) in each year, and even with 300 MW of DSP capacity, you would only get a limit of 70-80 hours; and

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- a DSP is unlikely to get dispatch for 70-80 hours every year and that the expected average dispatch over a 10-year period would be much lower.
- Mr Edwards pointed out that this risk would likely prevent a portfolio of DSPs to enter the WEM because only distributed embedded generators would be able to sign up as DSPs.

Mr Robinson pointed out the role for DSP aggregators – while individual loads may only be prepared to be available for 20-40 hours, an aggregator could spread the risk of dispatch across multiple loads.

Ms Guzeleva indicated that:

- EPWA received feedback from industrial loads and aggregators indicating that they would rather focus on reducing their IRCR if the DSP dispatch limit was above 20-30 hours;
- from a system security point of view, trying to reduce IRCR is not as certain as having a DSP with reserve capacity obligations that can be called upon;
- measures are being introduced to ensure performance of DSPs that are certified; and
- there is a tradeoff if the dispatch requirement is reduced – the DSPs will need to be available because they are paid the same for their capacity as generators.

Mr Robinson pointed out that loads have a trade-off when choosing between participating as a DSP or trying to reduce their IRCR – the load will:

- have to reduce consumption in a number of intervals in every year when trying to reduce IRCR; and
- have a risk of having to reduce consumption for a larger number of intervals as a DSP in any given year, but would likely have to reduce consumption in fewer intervals in reality.
- Mr Alexander agreed with the points made by Mr Edwards and suggested that the proposed methodology appears robust. Mr Alexander supported the proposed changes to the DSP dispatch limit.

The MAC did not have any other comments on Review Outcome 4.

Review Outcome 5 – Reserve Capacity Testing:

Mr Robinson summarised Review Outcome 5, as presented in Attachment 1 of to the cover paper.

The MAC did not have any comments on Review Outcome 5.

Review Outcome 6 – Outage Planning:

Mr Robinson summarised Review Outcome 6, as presented in Attachment 6 to the cover paper.

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- Mr Arias suggested that approval of Planned Outages will be a bigger issue in the future and asked if EPWA has an idea of the volume of flexible capacity required and therefore the likelihood of Planned Outages for flexible capacity being approved.

Mr Robinson indicated that the analysis had indicated a need for 1,000-1,200 MW of flexible capacity which should be within the capability of the current facilities. Therefore, this is not expected to be an issue, at least initially.

Mr Robinson pointed out that the periods in which those facilities are needed are likely be outside of the Hot Season when participants generally want to take their outages, so the outage scheduling could get more constrained.

Ms Guzeleva pointed out that the purpose of the flexible capacity arrangement is to attract new capacity that meets the flexibility requirements, and that new fast start generators and storage will have lower outage rates than older facilities.

In response to a question from Mr Edwards, Ms Guzeleva indicated that the intent is for the flexible capacity arrangements to commence for the 2024 Capacity Cycle.

The MAC did not have any other comments on Review Outcome 6.

#### Review Outcome 7 – Refunds:

Ms Guzeleva summarised Review Outcome 7, as presented in Attachment 1 to the cover paper. In particular.

Ms Guzeleva noted amendments that were made to the Review Outcomes following submissions on the Consultation Paper, including that:

- there will be separate pools for refunds for peak vs flexible capacity; and
- the Maximum Facility Capacity Refund for DSPs will be 125% of reserve capacity payments.

Ms Guzeleva indicated that a RCMRWG meeting had been held to discuss the issue of the distribution of capacity refunds back to participants serving loads and noted the following:.

- RCMRWG members made good points on the distribution of refunds to either customers or generators;
- views were split about 50/50 between the two options:
  - it was noted that those that opposed the proposal were generators with no retail function and generators that have a large generation portfolio compared to their retail portfolio;
  - it was noted that those that supported the proposal included loads, independent retailers and retailers that have a large retail portfolio, and the Expert Consumer Panel;

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- taking into account that the market is no longer oversupplied with capacity and that customers will pay for both SRC and for capacity procured through the Non-Co-Optimised Essential System Services (NCESS) process, the policy intent is that customers should not have to pay for capacity twice; and
- while generators have an incentive to avoid paying refunds that benefit their competitors, the rules specify that refunds are based on supply over the past 30 days, so a portfolio generator that experiences a partial outage will get some of the refunds back.
- Ms Papps indicated her concern that:
  - the majority of the wealth transfer to retailers will not be passed through to consumers because of the disconnect with the regulated retail tariff;
  - there is a revenue adequacy problem for generators in the WEM, as targeted by the WIC Review; and
  - generators increasingly need to take Planned Outages as Forced Outages and pay refunds because of a conservative reserve margin.
- Mrs Papps suggested a compromise to use refunds for outages that cause SRC to cover the SRC costs, but to hold off any further reform of the refund arrangements pending the outcomes of the WIC Review to avoid exacerbating the revenue adequacy issue.

Ms Guzeleva asked Mrs Papps who would pay for NCESS:

- Mrs Papps asked whether NCESS is procured due to Forced Outages or forecasting and other issues.

Ms Guzeleva indicated that the last NCESS process was primarily due to the risk of generation not being available, and only in part due to demand forecast.

- Mrs Papps indicated that she had not considered NCESS, but could do so and come back to the MAC, but it would come down to the reasons for calling NCESS – if it could be specifically attributed to generator availability or other issues in the market.
- Mr Alexander considered that:
  - the question whether retailers will pass the refunds through to customers should not stop the decision, otherwise this question would need to be asked for every reform.
  - the current refund model presents a form of collective generator insurance as generators pay refunds in one interval but receive rebates in others.
- Mr Arias indicated that:

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- the capacity price is set based on a level of demand and a level of capacity;
- if those sources of capacity are not there, then the price would have been higher and the generators that are there should have received higher compensation;
- if there is no level of service degradation, then there is no reason to transfer wealth to retailers; and
- SRC and NCESS are problems, but these are specific issues rather than broad policy questions.
- Mr Schubert indicated that refunds should pay for SRC and NCESS irrespective of whether it is caused by fuel supply risk or load growth because, in either case, the refunds ought to pay for any additional required capacity.
- Mr Stephen agreed with Mrs Papps and Mr Arias and suggested that consideration should be given to Mrs Papps' proposal.

The Chair asked for views on whether there are market efficiency implications of allocating the refunds or whether it is just a matter of who gets the refunds.

Ms Guzeleva indicated that:

- some RCMRWG members are proposing to target refunds at generators that have caused SRC, but the intent is that SRC should only be procured infrequently as a last resort;
- the RCMRWG members' views were split between generators that have no or smaller retail activity vs market participants with significant retail activity; and
- the WEM started in 2004 and refunds were paid to consumers for the first 10 plus years and this was changed in 2017 as part of a compromise, and at a time the market was oversupplied with capacity and consumers would have not paid for capacity twice, as they would today.
- Mr Gaston fully supported Review Outcome 7 and argued that:
  - there is no revenue gap for existing generators and the WIC Review is intended to look at a potential revenue gap in the future when the market is dominated by generators with zero short-run marginal cost;
  - the change to provide refunds to generators in 2017 was not properly scrutinised – there was never an economic justification for the change;
  - it is not correct that the reserve capacity price would be higher to compensate generators if some generators are not available, because a higher price would likely have incentivised other generators to enter the market;

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- there is a fundamental principle that customers should receive a refund if they are not getting what they paid for;
  - trying to tie refunds to fund SRC or NCESS would be very complicated;
  - SRC is an unheadgeable risk, so refunds should go back to customers to address this risk; and
  - while regulated retail tariffs may stop some refunds from flowing to customer, the tariffs are a matter of Government policy, and Government policy dominates all aspects of the WEM, so this is not a valid argument.
- Mr Peake suggested that there is a current revenue gap for existing generators, but paying refunds to generators will be considered more as a windfall than a sound cash flow and will not impact investment decisions.
  - Mrs Papps agreed with Mr Peake that refunds may not incentivise new investment, but suggested that refunds are a factor to plug the revenue gap for existing facilities.
  - Ms Teo indicated that she has no comments.
  - Mr Maticka, Mr Gaston and Mrs Papps discussed whether the changes to the refund mechanism in 2017 were adequately debated at that time.

The Chair noted that the discussion in 2017 does not necessarily detract from the current reasons for changing the allocation of refunds, but there may be benefit to understanding the rationale in 2017, and asked Ms Guzeleva to reflect this rationale in the Information Paper.

Ms Guzeleva indicated that the discussion in 2017 was broader than just changing the refund allocation, and that the rationale is not particularly relevant now, given that the market has changed substantially since 2017. Ms Guzeleva indicated that a link to the decision papers from 2017 will be inserted into the Information Paper.

The Chair summarised that the Coordinator should be advised of the concerns with Review Outcome 7 that were raised by generators.

Review Outcome 8 – The Expected Unserved Energy (EUE) Target in the Planning Criterion:

Ms Guzeleva summarised Review Outcome 8, as presented in Attachment 1 to the cover paper.

The MAC did not have any comments on Review Outcome 8.

Review Outcome 9 – Determination of the Benchmark Reserve Capacity Price (BRCP) Technology:

Ms Guzeleva summarised Review Outcome 9, as presented in Attachment 1 to the cover paper.

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	<p>The MAC did not have any comments on Review Outcome 9.</p> <p><u>Review Outcome 10 – RCM Expression of Interest:</u></p> <p>Ms Guzeleva summarised Review Outcome 10, as presented in Attachment 1 to the cover paper.</p> <ul style="list-style-type: none"> <li>• Mr Edwards, Mr Peak and Mr Arias supported Review Outcome 10.</li> </ul> <p>The MAC did not have any other comments on Review Outcome 10.</p> <p><u>General:</u></p> <p>The Chair summarised that the MAC:</p> <ul style="list-style-type: none"> <li>• generally supported the Review Outcomes in the Stage 2 Information Paper;</li> <li>• raised some concerns with the incentives that will be created by Review Outcome 4;</li> <li>• some members raised concerns with Review Outcome 7 that transferring refunds to retailers rather than generators will impact on generators to the extent that they rely on those refunds and may impact on incentives for generator availability; and</li> <li>• noted the compromise position that Mrs Papps outlined for the allocation of refunds.</li> </ul> <p><b>Action: AEMO is to provide an explanation of how it dispatches DSPs.</b></p>	<p><b>AEMO (31/08/23)</b></p>

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**11 General Business**

There was no general business.

The next MAC meeting is scheduled for 31 August 2023.

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**The meeting closed at 11:30am.**