

30 November 2012

Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Level 4, Albert Facey House  
469-489 Wellington Street  
PERTH WA 6000

Dear Lyndon

### Determination of Cost\_LR Ancillary Service Parameters

Clause 3.13.3B(a) of the *Wholesale Electricity Market Rules (Market Rules)* requires that by 30 November 2012, System Management submit a proposal for "Cost\_LR" to the Economic Regulation Authority to apply for the Review Period of 1 July 2013 to 30 June 2016.

The proposed value for Cost\_LR must be sufficient to cover the costs of providing Load Rejection Reserve Ancillary Service ("L") and System Restart Ancillary Service ("R").

System Management proposes the following values for Cost\_LR:

(\$ '000)	2013/14	2014/15	2015/16
<b>Load Rejection Reserve (L)</b>	0	0	0
<b>System Restart (R)</b>	508	521	534

### Load Rejection Reserve Ancillary Service

Load Rejection Reserve Ancillary Service is defined in clause 3.9.6 of the Market Rules:

*Load Rejection Reserve Service is the service of holding capacity associated with a Scheduled Generator or Dispatchable Load in reserve so that:*

- (a) *the Scheduled Generator can reduce output rapidly; or*
  - (b) *the Dispatchable Load can increase consumption rapidly,*
- in response to a sudden decrease in SWIS load.*

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A Load Rejection Reserve Ancillary Service allows the system frequency to be maintained within acceptable limits should there be an instantaneous loss of system load, which may occur should a significant part of the network separate from the main system or voltage dip cause automatic disconnection of customer equipment. This service is normally only activated a few times per year.

This service is maintained by shutting down generators as load decreases (and starting as load increases) to ensure that the remaining generators are sufficiently above their minimum loadings.

Verve Energy currently provides Load Rejection Reserve Ancillary Service as part of its ancillary service obligations under the Market Rule 3.11.7A:

*Verve Energy must make its capacity to provide Ancillary Services from its Facilities available to System Management to a standard sufficient to enable System Management to meet its obligations in accordance with these Market Rules.*

System Management has not previously sought an allocation for the L factor in Cost\_LR. System Management does not have information demonstrating that the provision of Load Rejection is at a particular annual (unremunerated) cost to any Market Participant, and has consequently made no change to the allocation of zero for Load Rejection Reserve Ancillary Service (L).

### System Restart

System Restart Service is defined in clause 3.9.8 of the Market Rules:

*System Restart Service is the ability of a Registered Facility which is a generation system to start without requiring energy to be supplied from a Network to assist in the re-energisation of the SWIS in the event of system shut-down.*

The use of this service only occurs when there is a complete shutdown of the SWIS. Ideally it should never be called upon as this event may only occur once every 10 – 20 years. Should it happen however and the service fails the SWIS may be without power for several days.

System Management has established deed of arrangements to remunerate providers of System Restart service based on an annual availability fee. Importantly, participants contracted to provide System Restart services will be remunerated no more than the monthly availability payment derived under the applicable agreement, which is subject to downward adjustment based on availability provisions. Note a deed of arrangement is made with the Service Provider rather than a contract as System Management does not make payments to the Service Provider, but advises the IMO to make payments on its behalf.

Until 30 June 2016 System Management has a deed of arrangement with Verve Energy for the provision of System Restart for one site (Pinjar) and Western Energy for one site (Donaldson

Rd). Until 30 June 2013 System Management has a deed of arrangement with Verve Energy for the provision of System Restart at one site (Kwinana).

System Management has requested persons interested in providing this service contact it in the IMO's Statement of Opportunities (SOO). See Chapter 7.5 in the 2012 SOO. Refer:

[http://www.imowa.com.au/f176,2338348/2012\\_SOO\\_rev0.pdf](http://www.imowa.com.au/f176,2338348/2012_SOO_rev0.pdf)

To date no expressions of interest have been received and so System Management intends to extend the expiring deed of arrangement under the same terms and conditions. System Management may do this by agreement with the service provider.

System Management's proposed R value reflects its estimate of these contract costs assuming an escalation rate of 2.25% per annum for 2013/14 and 2.5% per annum for 2014/15 and 2015/16 based on the Federal Government's Mid Year Economic and Fiscal Outlook. Refer:

[http://www.budget.gov.au/2012-13/content/myefo/html/01\\_part\\_1-01.htm](http://www.budget.gov.au/2012-13/content/myefo/html/01_part_1-01.htm)

The Federal Government's forecast is used as the majority of the service prices are escalated using 8 Australian Capital Cities Consumer Price Index (CPI) rather than the Perth CPI.

System Management looks forward to assisting the Economic Regulation Authority in its assessment of the proposed Cost\_LR parameters. Should you have any questions in relation to this, please contact Brendan Clarke on 9427 5940.

Yours sincerely,

**Cameron Parrotte**  
**General Manager, System Management**