

Determination of the Ancillary Service Cost_LR Parameter

18 March 2013

Economic Regulation Authority

WESTERN AUSTRALIA

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DETERMINATION

- Pursuant to clause 3.13.3B of the *Wholesale Electricity Market Amending Rules (Market Rules)*, the Economic Regulation Authority (**Authority**) has determined the values of the Cost_LR parameter covering the costs for providing the Load Rejection Ancillary Service ('L' component of the Cost_LR parameter) and System Restart Ancillary Service ('R' component of the Cost_LR parameter) for the 2013/14, 2014/15 and 2015/16 financial years, as shown in the table below.

Cost_LR parameter	2013/14 (\$ per month)	2014/15 (\$ per month)	2015/16 (\$ per month)
'L' component	0	0	0
'R' component	42,315	43,373	44,457

REASONS

Background

- Under clause 3.13.3B of the Market Rules, the Authority must determine values for the Ancillary Service Cost_LR parameter for the Review Period from 1 July 2013 to 30 June 2016 by 31 March 2013.
- In making the determination, the Authority is required to undertake a public consultation process and take into account:
 - the Wholesale Market Objectives;¹ and
 - the proposal submitted by System Management.
- The Market Rules require the proposed values of the Cost_LR parameter by System Management to cover the costs for providing the Load Rejection Reserve Service, System Restart Service and Dispatch Support Ancillary Services not paid under specific contracts (Dispatch Support Ancillary Services contracted through clause 3.11.8B of the Market Rules).
- On 30 November 2012, System Management submitted to the Authority its proposed values for the Cost_LR parameters for the 2013/14, 2014/15 and 2015/16 financial years. System Management also provided confidential attachments with contract details for System Restart Ancillary Services.
- System Management's submission is available on the Authority's website.²

¹ The Wholesale Market Objectives 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.

Public Consultation Process

7. In accordance with the requirements of the Market Rules, the Authority issued a notice on 19 December 2012, inviting public submissions on System Management's proposal. The Authority also published an issues paper to assist interested parties in making submissions. The period for public submissions closed on 1 February 2013.
8. One submission was received from Community Electricity. The submission is available on the Authority's website.

Assessment

9. The Authority has assessed System Management's proposal against the factors set out in clause 3.13.3B of the Market Rules by taking into account:
 - the Wholesale Market Objectives;
 - whether the proposed values for the Cost_LR parameter covers the costs for providing the Load Rejection Reserve Service, System Restart Service and Dispatch Support Ancillary Service (except those provided through clause 3.11.8B of the Market Rules); and
 - issues raised in the public submissions.
10. In assessing System Management's proposed values for the Cost_LR parameter, the Authority notes the following:
 - Verve Energy currently provides Load Rejection Reserve Ancillary Service as part of its Ancillary Service obligations, under clause 3.11.7A of the Market Rules.
 - System Management's submission stated that it had not previously sought an allocation for the 'L' component of the Cost_LR parameter because it did not have information demonstrating that the Load Rejection Reserve Ancillary Service is provided at a particular (unremunerated) cost to any Market Participant. System Management has retained this position and made no change to the allocation of zero value for the 'L' component of the Cost_LR parameter for the period from 1 July 2013 to 30 June 2016.
 - System Management's operational plans divide the South West Interconnected System (**SWIS**) into five sub-networks for System Restart purposes, and at least three generating stations are required to provide System Restart Service. System Management undertook competitive procurement processes to provide System Restart Service in three of the five SWIS sub-networks. System Management has a deed of arrangement with Verve Energy for the provision of System Restart Service for one site (Pinjar) and with Western Energy for one site (Donaldson Road) from 1 July 2011 to 30 June 2016.
 - No offers were received by System Management for one sub-network. As a result, System Management was required to directly negotiate a fee for

² See ERA web site, System Management – Determination of Cost_LR Ancillary Service Parameters http://www.erawa.com.au/2/272/42/determination_of_the_imo_and_system_management_all.pm

service for a third System Restart Service in the SWIS. System Management has a deed of arrangement with Verve Energy for the provision of System Restart Service at the Kwinana site from 1 July 2011 to 30 June 2013. System Management noted in its submission that it has sought expressions of interest from parties interested in providing this service; however, to date no expressions of interest have been received. System Management intends to extend the expiring contract with Verve Energy to provide System Restart Service at the Kwinana site under the same terms and conditions.

- System Management’s proposed values for System Restart Services at the three sites reflect its estimate of these costs based on terms defined in the contracts, assuming an escalation rate of 2.25% per annum for the 2013/14 financial year,³ and 2.5% per annum for the 2014/15 and 2015/16 financial years, based on the Consumer Price Index (CPI) forecast in the Federal Government’s 2012/13 Mid Year Economic and Fiscal Outlook. System Management stated that the Federal Government’s CPI forecast was used as the majority of the service prices are escalated using the eight Australian Capital Cities’ CPI, rather than Perth’s CPI.
11. The Authority is satisfied that in proposing the values, System Management has considered whether the proposed values cover the costs for providing the Load Rejection Reserve Service, System Restart Service and Dispatch Support Ancillary Service (except those provided through clause 3.11.8B of the Market Rules) for the 2013/14, 2014/15 and 2015/16 financial years.
 12. The Authority has taken into account whether the proposed values are consistent with the Wholesale Market Objectives. The Authority notes that System Management sought to competitively procure all three System Restart Services. The Authority considers that this practice is consistent with the Wholesale Market Objectives in producing efficient and competitive outcomes in the market. The Authority also considers that System Management has taken a reasonable and prudent course of action in choosing to directly negotiate a fee for service for a third (required) System Restart service for a shorter duration of two years (i.e. compared to the two competitively procured services which have a duration of five years each) and extending this contract under the same terms and conditions.
 13. The Authority notes that only one public submission was received in response to the Authority’s issues paper on the Cost_LR parameter. In its submission, Community Electricity expressed its support to System Management’s proposed values for the “L” and “R” parameters for the Review Period from 2013/14 to 2015/16.

CONCLUSION

14. Based on the assessment discussed above, the Authority determines that:
 - the values of the Load Rejection Reserve Ancillary Service (‘L’ component of the Cost_LR parameter) to be zero for the 2013/14, 2014/15 and 2015/16 financial years; and

³ The escalation rate of 2.25% is applied to the actual value for System Restart Services for the 2012/13 financial year. System Management provided the actual value for System Restart Services for the 2012/13 financial year to the Authority on a confidential basis.

- the values of the System Restart Ancillary Service ('R' component of the Cost_LR parameter) to be \$508,000 per annum, or \$42,315 per month for the 2013/14 financial year, \$521,000 per annum, or \$43,373 per month for the 2014/15 financial year and \$534,000 per annum, or \$44,457 per month for the 2015/16 financial year.