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Economic Regulation Authority
Western Australia
PO Box 8469
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RE: ERA Discussion Paper: 2013 WEM Report to Minister for Energy

Bluewaters Power (Bluewaters), formerly Griffin Power, welcomes the opportunity to provide input to the ERA's body of work regarding the 2013 review of the Wholesale Energy Market in WA.

Bluewaters operates in the WEM as:

- a "Market Customer" (Retailer) to large commercial off takers with ~200MW of retail capacity
 - a "Market Generator" (Generator) with certified capacity of ~430MW via two 217MW coal-fired power stations.
 - a Demand Side Program (DSP) provider of 20MW of certified capacity.
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(ERA Discussion Point 1) Review of the "Balancing Market":

- "How successful and effective they consider the new Balancing market to have been.
- "Improvements, if any, which should be made, including those already identified through the IMO consultation process."

The relevant rule change RC_2011_10 'created' two new markets, the Balancing market, and the Load Following (Ancillary Service) Market. Bluewaters believes it is important to make this distinction as the costs & benefits of each should not be confused (or mistakenly interpreted as aggregated).

Bluewaters believe the implementation of the Balancing Market has been an extremely successful evolution of the WA Wholesale Electricity Market (WEM).

The Balancing Market has provided Bluewaters with significant additional options and valuable benefits which were previously unavailable. Bluewaters has realised many of the benefits which were anticipated by the RDI WG, IMO and relevant consultants. As a result of the additional flexibility Bluewaters has:

- Returned generating units "early" from approved outages resulting in lower outage costs.
- Adjusted plant output upwards (away from "resource plan") in real time to take advantage of higher than cost prices and make profitable balancing sales.
- Adjusted plant output downwards (from "resource plan") in real time to take advantage of occasions when market prices are lower than SRMC.
- The ability to better manage costs which are directly related to the Balancing Price (eg. Spinning reserve charges). Specifically Bluewaters now has the option to produce energy above a known Balancing Price (rather than STEM price) when on the boundary of "Block 1" Spinning Reserve charges.
- Ability to conduct online system testing (eg. Reserve Capacity Tests, valve stroke tests etc) when market prices provide opportunity to do so at less cost rather than through pre-

approved outages (in the case of valve stroke tests for example) where the commercial outcomes are not known in advance and have oft-times been punitive.

Bluewaters is currently satisfied with the IMO's proposed work plan to make further improvements to the Balancing Market which include:

- Reduce gate closure from two hours to 30 minutes, or preferably 15 minutes.
- Simplifying settlements.
- The likely removal of the requirement to submit Resource Plans (an unnecessary compliance exercise).
- A review if the STEM mechanism which Bluewaters believes in conjunction with the Balancing mechanism should result in more market options (rather than less).

(ERA Discussion Point 2) Competitive LFAS market:

- "How successful and effective they consider the new LFAS market to have been.
- "Improvements, if any, which should be made.
- "What barriers there may be for further new entrants to the market.
- "Whether the current method of allocating costs to all customers based on monthly aggregate demand, as a proportion of that month's total system load is appropriate.
- "In light of the progress with the LFAS market, whether the development of competitive markets for further ancillary services (such as spinning reserve) should be prioritised."

Bluewaters supports the introduction of regulations catering for a competitive LFAS market. Bluewaters also acknowledges that the sustainability of the WEM is dependent on true cost recovery (of all required services).

That said, in hindsight it seems the MEP failed to anticipate or highlight the likely outcomes after the implementation of an LFAS market – namely that the cost of LFAS to market participants has risen from ~\$0.83/MWh in 2011/12 financial year to \$2.80 on average for the 12 months Sept 2012 to August 2013.

On one hand a market has successfully been created. On the other hand, the financial outcomes also reflect on the relative "success" of the new LFAS market to date. Bluewaters acknowledges the long term benefits of opening the LFAS service to competitive tensions however Bluewaters is disappointed the initial Cost-Benefit Analysis essentially failed to highlight the actual underlying cost of providing LFAS (as the reference/benchmark cost) to the SWIS. The result is that making a true assessment of "success" has not yet been demonstrated one way or another.

If the cost of providing LFAS was different to the costs published annually by System Management this should have been clearly acknowledged in the early stages of the project in order to truly evaluate the outcomes post-competitive LFAS implementation. If the cost of providing LFAS has in fact risen from what was reasonably \$0.83/MWh previously to ~\$3.20/MWh (on average) it is clear the new LFAS market has failed with respect to better achieving the outcomes intended by the Market Objectives.

Bluewaters is cognisant and supportive of the fact that the IMO is spending considerable time and effort seeking to clarify the true costs of LFAS and also pursuing multiple channels aimed at reducing the cost of LFAS going forward.

Bluewaters believes the following measures could provide LFAS cost savings through efficiency gains:

- Shorter LFAS windows (ie. a reduction from 6 hours) – providing the ability to bid closer to the time the service is required.
- Pursuit of methods to reduce the LFAS requirement, for example:
 - o Improved wind forecasting systems, with a view to better customising the LFAS requirement per interval.
 - o Improved load forecasting, with a view to better customising the LFAS requirement per interval.

- Achievable incentives for “causers” to reduce their impact on the LFAS requirement
 - Consideration of shorter balancing cycles
- Clearer delineation and measurement of LFAS signals (as distinct from balancing movements, automatic governor response and spinning reserve response)

Bluewaters broadly supports a “causer pays” approach to LFAS costs.

Bluewaters believes there is a solid case for the implementation of a Spinning Reserve market. We hope the lessons learned from the implementation of the LFAS market may result in a larger (or at least more appropriate) upfront investment to ascertain if one provider is more efficient than multiple providers; to show clear modelling which shows the current true cost of providing Spinning Reserve; and modelling which shows the likely outcomes of a competitive market - before implementation.

Your sincerely

Andrew Stevens
GM Energy Trading and Regulatory