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Elizabeth Walters
Economic Regulation Authority
PO Box 8469
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Via email: publicsubmissions@erawa.com.au

Dear Elizabeth

DETERMINATION OF THE MARGIN PEAK AND MARGIN OFF-PEAK PARAMETERS FOR 2016/17 AND THE COST_LR PARAMETERS FOR 2016/17 TO 2018/19

Synergy welcomes the opportunity to provide comment to the Economic Regulation Authority (**Authority**) on both the:

- Determination of the ancillary service margin peak and margin off-peak parameters for 2016/17 issues paper, dated 24 December 2015 (**margin values issues paper**); and

- Determination of the ancillary service cost_LR parameters for 2016/17 to 2018/19 issues paper, dated 7 January 2016 (**cost _LR issues paper**).

In summary, as the costs associated with providing load rejection reserve (**LRR**) service have recently been explicitly quantified in the margin peak and margin off-peak parameters (**margin values**) methodology, Synergy recommends that the Authority determine that the "L" component of the cost_LR parameter be amended to reflect the cost of providing this service.

Margin values issues paper

Synergy is currently the default provider of the spinning reserve service (**SRS**) under the wholesale electricity market rules (**market rules**). The margin values are applied to the balancing price to calculate the availability cost to be paid to Synergy for the provision of SRS.

Jacobs Group (Australia) PTY Limited (**Jacobs**) has been engaged by the Independent Market Operator for a number of years to assist in the determination of the margin values. This methodology has remained relatively static over time, however during the 2015/16 margin values determination the methodology was amended to take into account the impact of LRR. This was to ensure that only the cost of SRS was being included in the margin value calculation.

As a result of this methodology change there is now an explicit approach developed by an independent expert, and agreed to by the market operator and the Authority, quantifying the costs associated with the provision of LRR. It is therefore reasonable for the LRR financial impact to be now included within the “L” component of the cost_LR parameter.

Appendix 1 outlines the costs associated with providing LRR, as identified in the 2015/16 and 2016/17 margin values Jacobs’ reports.

Cost_LR issues paper

Synergy is currently the default provider for LRR under the market rules. The LRR service allows system frequency to be maintained within acceptable limits should there be an instantaneous loss of system load. LRR reduces load on, and sometimes even shuts down, generators as load decreases to maintain frequency standards. Therefore it is important to note that, on top of any out of merit generation costs, provision of LRR can often include shut down and start-up of thermal generating units with significant associated costs.

The Cost_LR values, as provided for in the market rules, cover the costs for market generators providing LRR, SRS and dispatch support services that are not paid under specific contracts. The determined values represent the maximum amount the market will be called upon to pay for these services. Generators providing LRR are compensated through the “L” component of the cost_LR parameter.

From market start until the introduction of the competitive balancing market, clause 6.18 of the market rules embodied the concept of “commitment compensation”. Specifically, clause 6.18.3 restricted a market generator from receiving any commitment compensation for either the first facility start in a trading day, or for any start-up or shut-down instructed by System Management in connection with any ancillary service contract it has with System Management. More importantly, clause 6.18.3 specifically excluded the Electricity Generation Corporation (now the Electricity Generation and Retail Corporation) from receiving any commitment compensation associated with any facility start-ups or shut downs. This clause had the effect of restricting the then Verve Energy (now Synergy) from recovering any start-up or shut down costs associating with providing LRR.

To that end, given the principles embodied in clause 6.18 of the market rules, System Management never sought an allocation for the L component in the cost_LR parameter, stating that *“System Management does not have information demonstrating that the provision of Load Rejection is at a particular (unremunerated) cost to any Market Participant”.*

While the restriction on the then Electricity Generation Corporation from receiving any Commitment Compensation was removed in 2012, Synergy did not seek to recover any explicit costs associated with providing LRR via the Cost_LR mechanism.

Given the recent margin values methodology change developed by the independent expert Jacobs, and agreed to by the market operator and the Authority, now quantifies the costs associated with the provision of LRR Synergy considers that it is now appropriate that the Authority determine that the “L” component of the cost_LR parameter reflect the cost of providing LRR (see appendix 1).

Should you require additional information regarding this submission, please contact Jacinda Papps on (08) 9424 1917 or Jacinda.Papps@synergy.net.au.

Yours sincerely

[redacted]

Will Bargmann
General Manager - Corporate Services

Appendix 1: Costs associated with providing LRR

Please note:

The format of the 2015/16 margin values Jacobs report allows readers to explicitly identify the cost of providing LRR.

However, while the 2016/17 margin values review paper retains the concept of the new methodology splitting the LRR and SRS costs, it should be noted that the specific information outlining the expected costs of providing LRR only wasn't specifically included in the latest Jacobs report. As such, Synergy recommends that the Authority request Jacobs amend tables 10-3 and 10-4 of this year's report to include the "Cost of LRR only" as per the 2015/16 report.

2015/16 Margin Values report	**Peak**	**Off Peak**	**Total**
Ave. Cost of LRR only ($M)	1.21	0.5	1.71
Ave. Cost of SRS only ($M)	*5.34*	*2.02*	7.36
Ave. Cost of SRS given provision of LRR ($M)	*6.27*	*2.63*	8.9
Interaction cost ($M)	0.92	0.61	1.53
SRS apportioning factor	0.64	0.6	
SRS availability cost ($M)	5.93	2.39	8.32
LRR apportioning factor	0.36	0.4	
LRR availability cost ($M)	**1.5412**	**0.744**	**2.2852**

Source: tables 10-2 & 10-3 2015/16 margins values report

2016/17 Margin Values report	**Peak**	**Off Peak**	**Total**
Ave. Cost of LRR only ($M)**	1.21	0.5	1.71
Ave. Cost of SRS only ($M)	*5.61*	*3.18*	8.79
Ave. Cost of SRS given provision of LRR ($M)	*7.3*	*4.27*	11.57
Interaction cost ($M)	1.68	1.1	2.78
SRS apportioning factor	0.645	0.615	
SRS availability cost ($M)	6.7	3.85	10.55
LRR apportioning factor	0.355	0.385	
LRR availability cost ($M)	**1.8064**	**0.9235**	**2.7299**

Source: tables 10-3 & 10-4 2016/17 margins values report

** Assuming 2015/16 values as 2016/17 report did not include this data