



Landfill Gas and Power

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Dear Troy

SUBMISSION ON ANCILLARY SERVICE STANDARDS AND REQUIREMENTS STUDY

Thank you for the opportunity to comment on the Ancillary Service Standards and Requirements study prepared by SKM.

LGP acknowledges that the current Ancillary Services Mechanism was developed in a context in which Verve Energy was the dominant generator, and competitive development of the market required a high level of regulation of Ancillary Services to mitigate its market power. In furtherance of this, a payment scheme was developed which is now widely perceived to be below cost and unreflective of opportunity costs. Moreover, the Ancillary Services mechanism is decoupled from the delivery of energy, and private generators can provide Ancillary Services only if their prices are demonstrably lower than the payments made to Verve. There is also a further complication caused by the interplay of penalty charges for non-compliance with Resource Plans submitted by private generators, which apply even if they are called to support the system frequency. These factors have impeded private participation in the provision of Ancillary Services and have caused Verve to provide the service at a loss.

As the market has evolved, Verve's market share has reduced from 90% to 60% and is still reducing. The Federal Government is also encouraging a substantial increase in renewable energy generation, a large proportion of which is likely to be intermittent. These factors will increase the need for Ancillary Services and the availability of other parties to supply them. They also create an imperative for reviewing Ancillary Service pricing so as to properly remunerate suppliers, allocate costs to causers and avoid increasing the existing impost placed on Verve. It is especially important that the Ancillary Service mechanism evolves to facilitate increasing intermittent penetration.

LGP interprets the SKM report as broadly confirming that the historical Ancillary Services arrangements were fit for purpose at the time and having served that purpose are now capable of achieving improved economic efficiency by bringing them into line with best international practice. That said, future evolution must recognise that the SWIS is a medium-sized islanded system for which the costs of a real time competitive Ancillary Services market would not be justified.

On this basis, LGP broadly supports SKM's recommendations, and in particular advocates that the Ancillary Services mechanism be reviewed with a view to:

- i) Co-optimize the dispatch of Ancillary Services with the dispatch of energy within the market.
- ii) Facilitate the dispatch of spinning reserve from all WEM machines, which SKM reports has the potential to increase the efficiency of the market by 2 % whilst maintaining and perhaps even improving the security of supply. In particular, SKM states that the required spinning reserve can be reduced by up to 20MW by carrying that reserve on a wider range of selected machines. They estimate that procuring Spinning Reserve and Load Following from all existing market participants at the same price as is paid to Verve Energy will decrease the cost of the Optimised Dispatch Market by \$16 million per annum with no additional capital investment.
- iii) Consideration of changing the existing "volume" based Ancillary Service determination to a "performance" based determination placed on System Management as a means of ensuring that suitable levels are procured as and when needed.
- iv) Implementation of a penalty regime for failure to provide a declared quantity and standard of Ancillary Service, applying on an equal basis to Verve Energy and Non-Verve Energy participants.

We would further note that the Ancillary Services mechanism should be sufficiently flexible to permit suppliers to optimise their carbon management according to fuel type and would welcome comment on this in the final report.

LGP also notes SKM's claim that studies demonstrate that the introduction of higher efficiency simple cycle gas turbines would decrease the cost of the Optimised Dispatch Market by over \$30 million per annum and increase the security of supply. We would also welcome further development of this claim in the second report.

If you require any further information in respect of this submission, please contact LGP's General Manager Retail, Steve Gould, on 041 250 8291.

Yours sincerely



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CHIEF EXECUTIVE OFFICER