

Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2012_05 Treatment of Negative Balancing Price on the Settlement of Ancillary Services

Submitted by

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Date submitted:	9 May 2012

Submission

- 1. Please provide your views on the proposal, including any objections or suggested revisions.**

Background

Until 2010 the settlement formulas for calculating the availability payment for providing certain ancillary services to the market made use of the Marginal Cost Administered Price (MCAP). As MCAP can be negative, for example in low demand periods over night, ancillary service payments during these negative MCAP periods would prior to 2010 lead to ancillary service providers receiving a negative payment. In other words, they were required to make a payment to provide the ancillary service.

This issue was addressed when rule change RC 2009 21 "Treatment of Negative MCAP on the Settlement of Ancillary Services" was implemented in February 2010. RC 2009 21 introduced a floor to the value of MCAP of \$0/MWh for the purpose of calculating ancillary service payments, effectively avoiding the perverse outcome of a service provider paying for the privilege of providing a service.

RC 2011 10 "Competitive Balancing and Load Following Market" is due to commence on 1 July 2012 and will open up the balancing and load following services to all generators. With the changes the current MCAP will also be replaced with a "Balancing Price". The legal text

changes to the Market Rules to implement RC 2011 10 have in general replaced “MCAP” with “Balancing Price”. However, the changes introduced by RC 2009 21 relating to the floor on MCAP in relation to payments for ancillary services, have not been carried forward by RC 2011 10. Therefore, if the Market Rules are not further amended, a negative Balancing Price from 1 July 2012 onwards will lead to ancillary service providers being required to pay for the privilege of providing ancillary services.

Change Proposal

Verve Energy submitted Rule Change Proposal RC_2012_05 “Treatment of Negative Balancing Price on the Settlement of Ancillary Services” on 18 April 2012.

The Rule Change Proposal would amend the Market Rules in the same manner as RC 2009 21 did, by introducing a floor of \$0/MWh to the value of the Balancing Price for the purpose of calculating ancillary service payments.

Verve Energy requested the Rule Change Proposal be progressed using the Fast Track process as it relates to a manifest error in the Market Rules.

Perth Energy’s Views

Perth Energy supports the Rule Change Proposal.

Perth Energy agrees that the issue relates to a manifest error in the Market Rules as the drafting of the legal text changes required to implement the new balancing and load following arrangements seems to have inadvertently reintroduced the issue that was addressed previously with the implementation of RC 2009 21.

The proposed amendments are necessary to ensure that all potential ancillary service providers are not discouraged from providing ancillary services during periods of negative Balancing Prices.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Perth Energy considers that the proposed changes to the Market Rules would remove a potential disincentive to provide ancillary services during periods of negative Balancing Prices. Perth Energy therefore considers the proposed changes would facilitate achievement of Market Objective¹ (a) in particular relating to the safe, efficient and reliable

¹ The objectives of the market 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;

production of electricity. Perth Energy has not identified any detrimental impacts on the remaining Market Objectives.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Perth Energy will not be impacted by the proposed changes.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Perth Energy will not require any lead time to implement the proposed changes.

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- (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.