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Greg Watkinson
Chief Executive Officer
Economic Regulation Authority
Level 4, Albert Facey House
Perth WA 6000

Level 17
197 St Georges Terrace
Perth WA 6000

Postal Address:
PO Box 7096
Cloisters Square
Perth WA 6850

T +61 8 9254 4300
E wa@aemo.com.au

Dear Greg,

REVISED SUBMISSION OF PROPOSED MARGIN VALUES FOR 2017–18

On 30 November 2016 in accordance with clause 3.13.3A(a) of the Wholesale Electricity Market Rules (Market Rules) the Australian Energy Market Operator (AEMO) provided the Economic Regulation Authority (ERA) with the 2017-18 margin values reports.

The ERA is required to determine the margin values in accordance with clause 3.13.3A of the Market Rules. AEMO has identified an inconsistency in the presentation of the SR_Capacity_Peak (MW) and SR_Capacity_Off-Peak (MW) quantities when compared to the presentation of the margin values (Margin_Peak and Margin_Off-Peak) in the reports.

Resolution of this inconsistency has not impacted the margin values proposed by AEMO, the total annual availability cost proposed and in AEMO's opinion should not affect the ERA's determination of the margin values.

This inconsistency was identified by AEMO during a post-submission reconciliation of the reports to identify the various inputs for settlement purposes. The inconsistency relates to how the proposed parameters in the report will be used for settlements and is outlined as follows:

- The relevant settlement equation is specified in clause 9.9.2(f) of the Market Rules and is as follows:

$$SR_Availability_Payment(t) = 0.5 \times Margin(t) \times Balancing_Price(t) \times \max(0, SR_Capacity(t) - LF_Up_Capacity(t) - Sum(c \in CAS_SR, ASP_SRQ(c, t))) + Sum(c \in CAS_SR, ASP_SRPayment(c, m) / TITM)$$

- The Load Following Ancillary Services (LFAS) up capacity value (*LF_Up_Capacity*) used in this equation is the amount of LFAS up capacity enabled by System Management in accordance with clause 7.13.1(e) of the Market Rules.
- The NewGen Kwinana¹ and Cockburn² facilities provide LFAS up capacity through the LFAS up market but are not eligible to provide spinning reserve.
- The *LF_Up_Capacity* parameter in the settlement equation therefore includes capacity from these facilities that are not eligible to provide spinning reserve services.

¹ As per *List of exemptions from compliance with the Technical Rules granted by Western Power after 1 July 2007* published on the [ERA website](#).

² Facility does not have primary frequency control and is exempt under clause 1.9.4(a) of the [Technical Rules](#) as at December 2016.

- The spinning reserve capacity value (*SR_Capacity*) in the settlement equation is specified, as per clause 3.22.1(e) and (f) of the Market Rules, as the capacity assumed by AEMO in forming the margin values.
- The spinning reserve capacity values proposed in the previous reports are the modelled spinning reserve requirements in each interval. Those values excluded LFAS facilities which were not eligible to provide spinning reserve.
- Jacobs' determination of spinning reserve quantities by excluding ineligible LFAS up capacity is appropriate. However, if AEMO were to use the spinning reserve values stated in the report it would result in the actual spinning reserve capacity required being understated and an underpayment to Synergy for spinning reserve provided.
- Therefore, in order to adjust for this aspect of the settlement equation, and ensure that Synergy is compensated based on the modelled amount of spinning reserve, the *SR_Capacity* value must be adjusted up by the LFAS Up capacity that is ineligible Spinning Reserve service.

This is consistent with the treatment of the *Margin_Peak* and *Margin_Off-Peak* values. These values are calculated by re-arranging the settlement equation. The calculation has used the spinning reserve capacities which were adjusted in this manner.

AEMO has worked with Jacobs Group (Australia) Pty to restate the *SR_Capacity_Peak* (MW) and *SR_Capacity_Off-Peak* (MW) values in the report so as to be consistent with the presentation of the margin values and to ensure the correct settlement outcome. The amended spinning reserve values are as follows:

Margin values	Proposed (2017–18)		Approved (2016–17)	
	Peak	Off-Peak	Peak	Off-Peak
Margin (%)	36%	64%	24%	35%
Average Annual Spinning Reserve Capacity (MW)	221.8	190.2	218.1	191.9
Modelled Balancing Price (\$/MWh)	56.27	39.56	52.97	36.17
Annual Availability Cost (\$M)	8.57	4.72	6.70	3.85
Total Annual Availability Cost (\$M)	13.29		10.55	

Jacobs Group (Australia) Pty Limited have revised both the confidential report and public report, which are attached for your consideration.

Please contact Martin Maticka on (08) 9254 4336 if you have any queries or would like to discuss further.

Kind regards,



Cameron Parrotte
Executive General Manager, WA