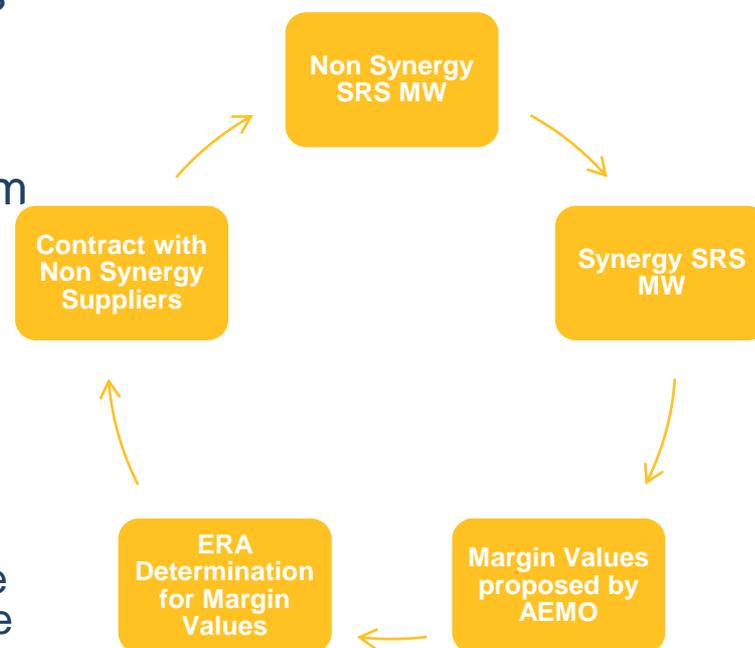


EFFICIENCY IN THE MARGIN VALUES AND SPINNING RESERVE PROCUREMENT PROCESSES

February 2018

ISSUES WITH THE PROCUREMENT PROCESS

- The MAC asked AEMO to investigate whether a rule change is needed to improve efficiency in the Spinning Reserve procurement process by allowing Participants to offer additional Spinning Reserve in response to the draft margin values determination.
- The process to procure Spinning Reserve from Participants other than Synergy is outlined in the WEM Rules.
 - The process is circular, lengthy and complex.
- In summary, the process to determine the Spinning Reserve margin values requires quantity of non-Synergy provided Spinning Reserve as an input
 - Without a Rule Change, Participants are unable to offer additional Spinning Reserve in response to the draft margin values determination.
- Potential improvements to the procurement process can be investigated
 - These improvements will provide Participants further information, but will take effort and time.

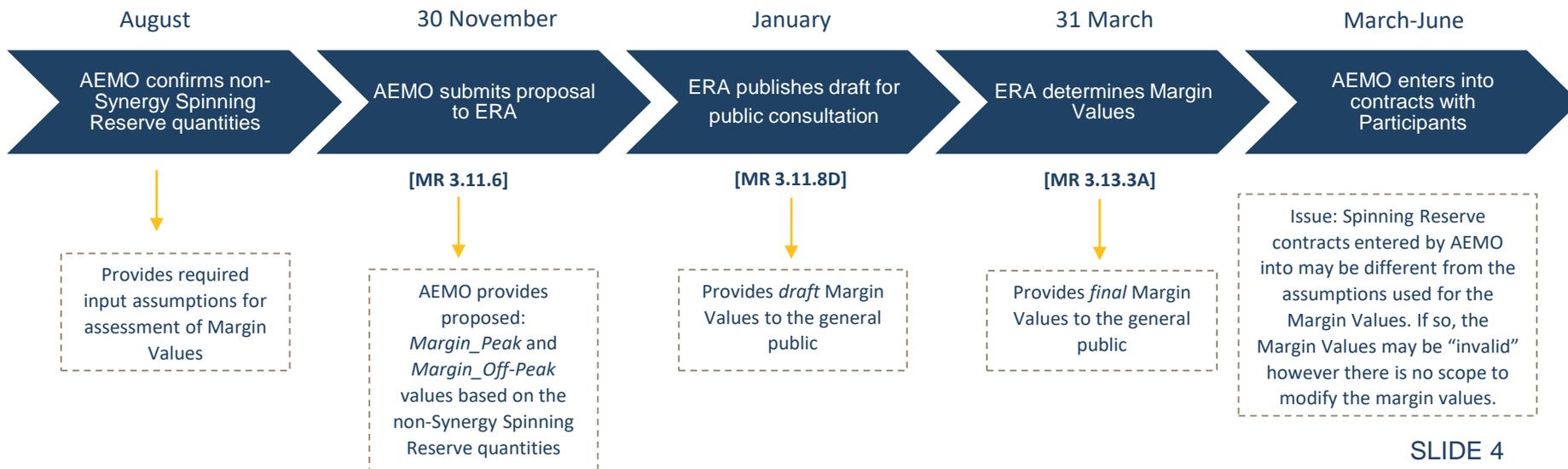


- Spinning Reserve Ancillary Service (SRAS) is:
 - To arrest a frequency decay after the loss of a generating unit.
 - 70% of the total output, including Parasitic Load, of the generation unit synchronised to the SWIS with the highest total output [WEM Rule 3.10.2(a)i]
 - At present the requirement is up to 240 MW
- Synergy is the default provider.
- Spinning Reserve is also provided under contract:
 - 42 MW by Simcoa (long term IL contract)
 - 13 MW by Simcoa (annual IL contract) will expire by the end of this FY
 - 13 MW by Blue Waters will expire by the end of this FY
- AEMO's objective is to minimise the total cost of Spinning Reserve
 - All providers must be technically compliant

CURRENT PROCUREMENT PROCESS



- The process to procure Spinning Reserve from Participants other than Synergy is circular, lengthy and complex:
 - AEMO may only enter into a contract where the price is lower than the price for Synergy to provide the service
 - Synergy are compensated for the provision of Spinning Reserve at a percentage of the Balancing Price.
 - Percentages are set annually (called margin values) through a modelling process.
 - The annual modelling process makes assumptions including the quantity of non-Synergy Spinning Reserve.
 - Reducing the Synergy allocated MW may increase the Margin Value, thereby increasing total SRAS costs

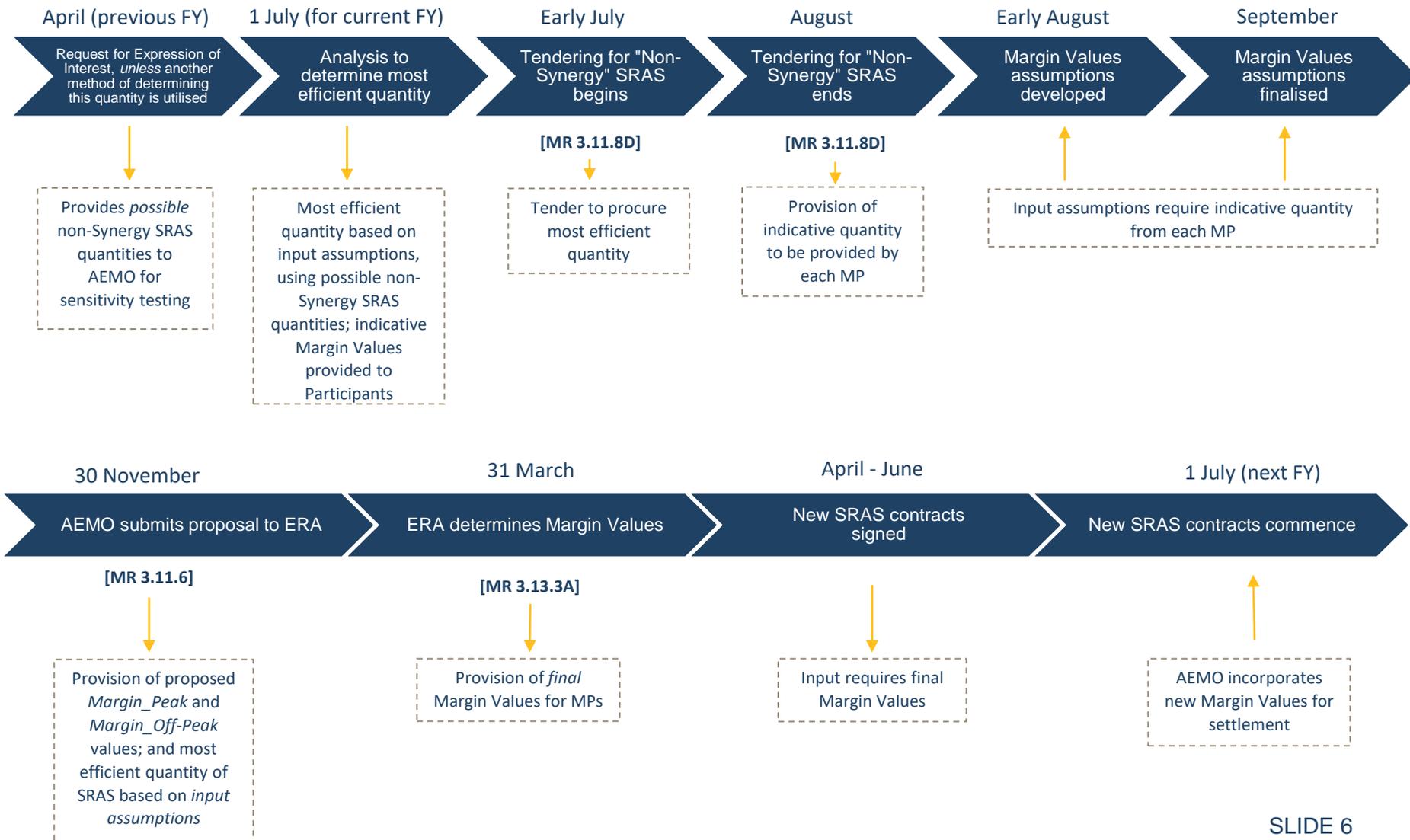


FOR DISCUSSION: POTENTIAL PROCESS IMPROVEMENTS TO PROCUREMENT



- AEMO aims to identify a more efficient quantity of Spinning Reserve that can be provided by Participants other than Synergy.
 - Intention is to minimise the overall cost of Spinning Reserve.
 - AEMO has used an Expression of Interest (EOI) to provide inputs into this analysis.
 - AEMO received three technically compliant proposals
 - Used three scenarios of quantity to establish indicative Margin Values
- AEMO may be able to extend this analysis to provide indicative Margin Values based on EOI quantities provided by each Participant
 - Participants would therefore be able to tender with further knowledge of indicative Spinning Reserve Margin values.
 - However, AEMO cannot contract until the final Spinning Reserve Margin values are determined.
- AEMO will not necessarily need to tender every year.
 - At the start of every year, AEMO will determine whether the amount of contracted Spinning Reserve is appropriate.
 - If the amount is required (or is beneficial) to increase, AEMO will conduct the tendering process in addition to the Rule requirements for proposal of the Spinning Reserve Margin values.
 - Otherwise, AEMO will not tender and merely propose the Spinning Reserve Margin values.
- The following diagram indicates the process which AEMO can investigate further.

PROCUREMENT PROCESS FOR FURTHER INVESTIGATION



- AEMO must operate according to the Market Rules that govern the Margin Values and Spinning Reserve Procurement processes.
- The proposed interim process will not require amendment to the Market Rules, but will not allow Participants to offer additional Spinning Reserve in response to the draft margin values determination
- In addition, the following issues will be introduced by the proposed interim process:
 - The timeframe will increase – commencing about 15 to 18 months prior to commencement of the relevant Financial Year and reflected in modelling assumptions; and
 - Indicative Spinning Reserve Margin values for tendering may vary substantially from final values determined by the ERA.
- AEMO will need to investigate further to determine the amount of additional costs incurred by the process
 - Most likely this process will not be ready for the 2018/19 Financial Year due to timing
 - It could be used for the 2019/20 Financial Year and those following until a market for Spinning Reserve is introduced