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Manuel Arapis
Economic Regulation Authority
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27 February 2018

Dear Mr Arapis

BLUEWATERS' SUBMISSION – DRAFT BALANCING SUBMISSION GUIDELINE

Bluewaters welcomes the opportunity to provide comments on the paper entitled “Balancing Submission Guideline - DRAFT” ([Guideline](#)). This paper was published by the Economic Regulation Authority (Authority) on 3 January 2018.

Bluewaters notes that the proposed Average Variable Cost (AVC) includes all Variable Costs and Avoidable Fixed Costs (AFC) - averaged by the quantity of electricity generated. The AFC includes a generator's start-up costs.

Bluewaters considers that the costs associated with the start-up of all generators need to be considered in the AVC - irrespective of the generation technologies including the baseload generators. This is because:

- it is an underlying principle that all of these generators will be in a loss making position unless (among other things) their start-up costs are allowed to be averaged over their respective quantities of generated electricity and such average costs are recoverable from the Balancing Market; and
- such underlying principle holds true regardless of the generation technology employed.

However, Bluewaters notes that the quantum of recoveries may differ because the start-up costs and expected generation durations can vary significantly with different technologies.

As such, Bluewaters considers the worked examples set out in section 5 of the Guideline, when applied to a baseload generator, could be further clarified to reflect the above.

Furthermore, as there is significant uncertainty as to how long a generator will run once start-up has occurred, Bluewaters considers the calculation of AVC should allow a risk premium to account for such uncertainty. Alternatively, for the purpose of calculating the per-trading interval start-up cost, the Authority may wish to limit the number of expected run-hours to a suitable level.

Bluewaters considers pricing of a Balancing Offer is complex. For example, an offer needs to take into account (a) the dynamic nature of the Spinning Reserve cost allocation and (b) the dynamic relationship between Balancing Offers and Load Following provision in the market. Such complexity means a generator's SRMC/AVC may need to be estimated based on the generator's expectation of the relevant factors. In addition, Bluewaters considers it unavoidable that a generator at times will make Balancing Submissions based on forecast information and those forecasts may differ from actual events. As such, Bluewaters shares the Authority's views of the interpretation of the term “reasonable expectation” which tests “what a reasonable Market Generator would have expected with reference to the circumstances known to that generator at the time”¹.

The “reasonable expectation test” means the practical constraints discussed above need to be taken into account for evaluating whether a market generator is in breach of its market power/SRMC obligations in the Market Rules. In other words, Bluewaters considers the SRMC/AVC should be used as guides only, and prudent judgement should be exercised while performing such evaluations.

¹ See section 4.1 of the Guideline.

Should you have any questions regarding this submission please contact Ignatius Chin on 08 9261 2890 or ignatius.chin@bluewatersps.com.au.

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