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Dear Mr Shahnazari

RESPONSE TO ISSUES PAPER – MARGIN VALUES FOR THE 2018/19 FINANCIAL YEAR

AEMO welcomes the opportunity to provide this response to the ERA's 3 January 2018 issues paper entitled *Spinning Reserve Ancillary Service: Margin Values for the 2018–19 Financial Year*.

One of the matters on which the ERA seeks views is “whether the formula for calculating availability cost should account for the change in price between the scenarios with and without reserves and the consequences for the market of using a different method of estimating the availability cost from the modelling”.

In 2012 the IMO reviewed the availability cost calculation formula as part of its margin values review for the 2013/14 financial year¹. AEMO has reflected on the outcomes of the IMO's review and makes the following points:

1. The IMO acknowledged that the inclusion of the ‘without Spinning Reserve provision’ scenario could affect the availability cost in a given Trading Interval. However, the IMO considered that the SWIS would never be operated without Spinning Reserve, so the ‘without Spinning Reserve provision’ was unrealistic and unlikely to be reflective of real market prices if reserves (Spinning Reserve and Load Rejection Reserve) were required. AEMO agrees with the IMO's views.
2. AEMO notes for completeness that the ERA's 18 December 2012 issues paper stated that “this issue regarding the methodology for calculating the availability cost was not raised again by Market Participants when the IMO invited submissions ... on its key modelling assumptions and methodology for the margin values review for the 2012/13 and 2013/14 Financial Years”.²

¹[https://www.erawa.com.au/cproot/11027/2/IMO%27s%20proposal%20on%20the%202012%20Margin%20Value%20\(inclusive%20of%20independent%20assessment%20by%20consultant%20SKM%20MMA\)_Redacted.pdf](https://www.erawa.com.au/cproot/11027/2/IMO%27s%20proposal%20on%20the%202012%20Margin%20Value%20(inclusive%20of%20independent%20assessment%20by%20consultant%20SKM%20MMA)_Redacted.pdf)

² ERA, 18 December 2012, *Determination of the Ancillary Service Margin_Peak and Margin_Off-Peak Parameters: Issues Paper*, p7, https://www.erawa.com.au/cproot/11025/2/20121219%20-%20Issues%20paper%20for%20the%20Ancillary%20Service%20Margin_Peak%20and%20Margin_Off-Peak%20parameters.pdf.

For these reasons, AEMO considers that a change in the availability cost calculation formula would not necessarily provide a more accurate outcome in modelling Synergy's availability cost, and that the current methodology should be retained.

Nevertheless, AEMO acknowledges that the ERA may wish to make recommendations regarding the availability cost calculation formula in its margin values determination for the 2018–19 financial year. AEMO will take any such recommendations into account when preparing its margin values submission for the 2019-20 financial year.

AEMO does not expect changes to the formula for calculating availability cost to account for the change in price between the scenarios with and without reserves to increase the time or cost required by AEMO to deliver the ERA it's Margin Values proposal.

Yours sincerely



Martin Maticka
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