

Submission to the Economic Regulation Authority on its issues paper: *Spinning reserve ancillary service: margin values for the 2018–19 financial year*

Overview

Perth Energy welcomes the opportunity to comment on the ERA's issues paper on the spinning reserve ancillary service margin values for 2018/19. The provision of spinning reserve and other ancillary services on an equitable basis and at a price that reflects the actual cost of providing service, is fundamental to achieving the Wholesale Electricity Market (WEM) objectives.

We consider that the revised margin values published on 1 February 2018, which result in a total annual availability cost for 2018/19 of \$10.15 million, seem reasonable and are more in line with our expectation that Synergy's availability costs would be lower than last year.

However, we would like to take this opportunity to discuss the suitability of the current method of estimating the spinning reserve ancillary service costs.

The margin value estimation method

Spinning reserve is essentially a generation continuity safety net for the entire South West Interconnected System (SWIS) and as such is one of the most integral and indispensable services provided in the WA electricity sector. However, despite its importance to the SWIS, spinning reserve is also one of least transparent and most difficult services to quantify accurately.

There is no market to procure spinning reserve ancillary services in the WEM. Synergy is the default provider of spinning reserve. While other generators can provide spinning reserve via contractual arrangements, the high cost of complying with technical requirements, coupled with the fact the AEMO currently has no obligation to dispatch the most competitive service, means the provision of spinning reserve is currently unattractive to the majority of generators. As a result, Synergy retains the monopoly.

In the absence of a competitive spinning reserve market we rely on theoretical estimation processes, such as estimating margin values, to determine the cost of this essential service and the price market participants must pay. Theoretical studies are naturally subject to conjecture and are limited in their ability to accurately reflect the actual cost of providing services. Further, as highlighted by Jacobs' recent error in its initial calculation of the 2018/19 spinning reserve availability costs, any miscalculation or incorrect assumption can dramatically impact the end cost to market participants.

We therefore strongly recommend the ERA and key energy sector stakeholders pursue development of a competitive market-based mechanism and dispatch engine to provide spinning reserve. This would eliminate the need for a theoretical cost estimation process.

The ERA has previously argued that a competitive market-based mechanism for providing ancillary services would provide spinning reserve more efficiently than current arrangements, and we would



support further pursuit of this concept. We also consider a market-based mechanism with an equitable dispatch process would also help promote the WEM objectives, in that it would encourage competition to provide spinning reserve ancillary services, and facilitate efficient entry of new competitors.

The ERA notes that following the demise of the recent Electricity Market Review *“it is not likely that a competitive market-based ancillary service mechanism will be established in the short to medium-term”*. We appreciate how complex introducing a fully-co-optimised energy and ancillary services market-mechanism would be and will support efforts to implement such a mechanism in the WEM as part of any future market reforms. Given the importance of spinning reserve services in the WEM, we consider the investigation of an interim measure is warranted.

A potential medium-term solution could be to introduce a standalone spinning reserve market operating in parallel to the Balancing Market. Similar to the load following ancillary service market, this type of mechanism would employ an optimisation process, considering system and operational constraints and compel the AEMO to dispatch the lowest cost service provider to minimise the total system cost. The implementation of the new market would also provide an opportunity to improve the equity of the allocation of spinning reserve costs.

We consider the implementation of such a market-based mechanism is practicable and could be achieved relatively quickly. Most importantly, we believe that the overall costs would be outweighed by the benefits accrued prior to the implementation of a fully-co-optimised energy and ancillary service market.

Perth Energy would welcome further discussion on this issue with the ERA and the Market Advisory Committee.

Yours sincerely



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