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Dear Economic Regulation Authority

## **RESPONSE TO ISSUES PAPER – MARGIN VALUES AND COST LR ANCILLARY SERVICES PARAMETERS FOR 2020/21 FINANCIAL YEAR**

Bluewaters welcomes the opportunity to provide comments on the paper “Margin Values and Cost\_LR Ancillary Services Parameters for 2020/21” (Issues Paper). This paper was published by the Economic Regulation Authority (Authority) on 16 December 2019.

Bluewaters notes that the Authority is, through this Issues Paper, prioritising the release of AEMO’s proposal prior to the ERA considering the proposal in more detail by conducting consultation under MR 3.13.3A(b).

Bluewaters offer the below observations for consideration by the ERA.

### **Question 1 & 2: Relative Costs of Spinning Reserve and Load Rejection Reserve**

As noted in the Issues Paper, the costs for Ancillary Services have been reducing in recent reviews. This is a positive trend to ensure that the overall cost of energy in the WEM is reasonable to ensure that economic productivity is supported.

The challenges that exist in the WEM as the traditional supply structure transitions to a distributed energy future will continue to put pressure on Ancillary Service costs. As the wholesale price of Energy in the WEM is on a downward path (including the increase of negative price intervals requiring facilities to pay to generate), this displaces scheduled generation with intermittent and behind the meter generation. As the ultimate just-in-time industry, facilities which are able to provide the necessary services to maintain frequency will increasingly be required to cover their cost of generation and cycling from these services. This can be seen as the cost of reliability in such a system.

While the Security Constrained Economic Dispatch reform scheduled for October 2022 will provide a more dynamic market environment where these services can adequately reflect their cost to provide, in the interim the current administered price regime will need to ensure that this balance remains appropriate.

### **Question 3: Gas Price Assumption**

The modelling and back casting exercise by EY has provided rigor around the model assumptions to ensure appropriate forecasting.

Bluewaters note that it challenged the gas assumption in previous Margin Value reviews for 2017/18<sup>1</sup> arguing that pricing gas at cost rather than value was a flawed assumption that resulted in a deviation between Balancing Price and Availability Cost. Bluewaters support this updated assumption in the current modelling, as validated by the back casting.

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<sup>1</sup> <https://www.erawa.com.au/cproot/17551/2/Public%20Submission%20-%20201718%20proposed%20SR%20margin%20values%20-%20Bluewaters.PDF> – Second Page, Third dot point on Jacobs modelling.

### Spinning Reserve Margin Values Results

The results of the modelling on Margin Values appear to be well tested by EY. While there is an indicated increase in the spinning reserve requirement on account of the inputs noted in 3.1.2 of the Issues Paper, the sensitivity illustrates that the trade-off between Balancing Prices and Availability Cost supports this outcome.

#### Question 4: Load Rejection Reserve

Bluewaters supported ERA's determination in the 2019/20 review for the reason of an apparent disconnect between the modelled results and actual scheduling practices of AEMO<sup>2</sup>. The most appropriate way to test the model for adequacy is through back-casting and sensitivity analysis. The 2020/21 review appears to have achieved better alignment between the model and actual behaviour.

#### Question 6 & 7: System Restart

While all attempt should be made to maximise the contribution from the entire SWIS for restarting the system following a system-wide blackout, as noted in the Issues Paper, such a service is largely dependent on technical capability. Review into the broader requirements and the tender for North and South Metro subnetworks will ensure efficient price outcomes, however the natural limitations of the SWIS will be a restriction.

Should you have any questions regarding this submission please contact Daniel Kurz on 08 9261 2881 or [daniel.kurz@bluewatersps.com.au](mailto:daniel.kurz@bluewatersps.com.au).

Yours sincerely,

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<sup>2</sup> <https://www.erawa.com.au/cproot/20448/2/PubSub---BlueWaters---Ancillary-Services-Parameters-review-2019.pdf>  
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