

30 November 2020

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Dear Rajat

### UPDATE TO COST\_LR PARAMETERS FOR THE 2021/22 FINANCIAL YEAR

In June 2020, in accordance with the Wholesale Electricity Market Rules (WEM Rules), the Australian Energy Market Operator (AEMO) provided the Economic Regulation Authority (ERA) with its proposal for:

- the Margin\_Peak and Margin\_Off-Peak values (margin values) to apply during the 2021/22 Financial Year [clause 3.13.3A(a)]; and
- the updated Cost\_LR value to apply during the 2021/22 Financial Year [clause 3.13.3C(a)].

In line with AEMO's June 2020 letter, this letter proposes an update to the proposed Cost\_LR value. This update is due to more up to date information in relation to System Restart costs becoming available. No updates to the margin values are proposed from the June 2020 proposal.

### PROPOSED LOAD REJECTION RESERVE COST

AEMO proposed in a letter to the ERA in June 2020 that the Load Rejection Reserve Service component (i.e. the L component) of the Cost\_LR parameter determined for 2020/21 be retained for 2021/22. This is aligned with the approach discussed between the ERA and AEMO in May 2020<sup>1</sup>.

AEMO considers that proposal provides sufficient detail to enable the ERA to determine the updated Cost\_LR value for the 2021/22 Financial Year and meets the requirements of 3.13.3C(a) of the WEM Rules.

### PROPOSED SYSTEM RESTART COST

Pursuant to clause 3.11.8A of the WEM Rules, AEMO has entered into Ancillary Service Contracts with Market Participants for the System Restart Service. Contracts for North and South Metropolitan areas expire on 30 June 2021 and AEMO is in the process of procuring new contracts to provide System Restart Services commencing 1 July 2021.

Whilst the tender window has closed, commercial discussions have not commenced, hence AEMO will provide the best information available for the cost of System Restart Service.

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<sup>1</sup> Letter correspondence has been published on the ERA's website here: <https://www.erawa.com.au/electricity/wholesale-electricity-market/regulatory-papers/covid-19-aemo-review-of-regulatory-activities>

The following assumptions have been used to determine the proposed R component of Cost\_LR for 2021/22 (refer to Appendix 1 for details – redacted):

- the continuing contract for the South Country area is adjusted for inflation according to contractual terms; and
- the contracts for the North and South Metropolitan areas, which expire on 30 June 2021, are based on the tender submissions.

AEMO is targeting February 2021 for contract negotiation completion and will provide the actual contract cost to ERA at that time. Refer to the June letter to the ERA<sup>2</sup> for further details.

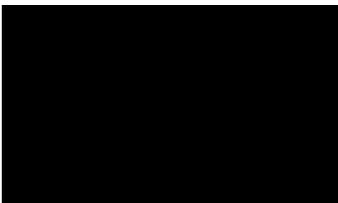
AEMO proposes the following components of the Cost\_LR value to apply for the 2021/22 financial year:

Financial Year	Load Rejection Reserve (L) Cost			System Restart (R) Cost		
	2019 Proposed	2019 Approved	2020 Proposed	2019 Proposed	2019 Approved	2020 Proposed
2020/21	\$721,000	\$1,167,000	-	\$3,277,661	\$2,868,473	-
2021/22	N/A	N/A	\$1,167,000	N/A	N/A	\$3,369,438

Therefore, the proposed Cost\_LR value to apply for the 2021/22 financial year is \$4,536,438.

Please contact Mark Katsikandarakis on (08) 9469 9932 or Teresa Smit on (08) 9469 9992 if you have any queries in relation to the margin values or Cost\_LR proposals.

Yours sincerely



Dean Sharafi  
Acting Executive General Manager, Western Australia

<sup>2</sup> 2020 06 Letter to ERA – Margin Values and Cost\_LR Value for 2021-2-22 FINAL.doc