



# Notice

31 March 2021

## Margin Values and Cost\_LR parameters for 2021/22

### Determination

The Economic Regulation Authority has determined values of 12.6 per cent and 23.2 per cent respectively for the margin peak and margin off-peak parameters to apply in 2021/22. Margin values are the share of the balancing price paid to Synergy to compensate for the margin Synergy could reasonably have expected to earn on energy sales were it not providing the spinning reserve ancillary service.

The ERA has also determined a value of \$10,755,438 for the Cost\_LR parameter. The cost of providing the load rejection ancillary service is represented by the 'L' component of Cost\_LR and the cost of providing system restart services, is the 'R' component of Cost\_LR.

The Australian Energy Market Operator uses ancillary services to maintain the security of the South West Interconnected System. Spinning reserve and load rejection reserve are complementary but opposite ancillary services. Spinning reserve provides a rapid increase in generation to compensate for the sudden loss of a large generator. Load rejection provides a rapid decrease in generation if a large load is lost. A generator providing system restart can energise the electricity system after a total system blackout

AEMO proposed to roll over the 2019/20 values for spinning reserve and load rejection reserve to 2021/22. As part of its determination, the ERA reviewed AEMO's proposal and concluded that too many factors had changed for the ERA to base its determination on the modelling underpinning the 2019/20 values. The factors that had changed included the quantity of renewable generation in the market, quantities of required ancillary services and gas prices.

The ERA conducted its own modelling and investigation of spinning reserve and load rejection reserve requirements and costs over 2021/22 and found that the increasing amount of renewable generation is driving changes in the quantities and costs of ancillary services.

In the periods where there is a large amount of renewable generation, Synergy's coal generators, which historically have provided ancillary services, are used less and can no longer be relied on to provide ancillary services. Consequently, AEMO needs to schedule more gas-fired generation to provide spinning reserve and load rejection reserve services. Gas generators generally have a higher operating cost than Synergy's coal generators, so using more gas drives up the forecast cost of these two ancillary services.

The Wholesale Electricity Market Rules require the ERA to undertake a public consultation process in making its decision. As part of the review, the ERA published an issues paper and

addendum to the issues paper on 9 February 2021 and 12 March 2021 respectively. Five submissions were received.

In the course of making its determination, the ERA concluded that the administered margin value mechanism is no longer working as anticipated. However, this is the last year that the mechanism will be used. From October 2022, system security services, renamed essential services, will be provided through a competitive process. This change is part of the State Government's energy reform program.

The ERA's determination of the margin peak, margin off-peak, and Cost\_LR parameters is available on our [website](#).

### **Further information**

#### General enquiries

Sara O'Connor  
Ph: 08 6557 7935 | Mob: 0414 452 305  
[info@erawa.com.au](mailto:info@erawa.com.au)

#### Media enquiries

Natalie Warnock  
Ph: 08 6557 7933 | Mob: 0428 859 826  
[media@erawa.com.au](mailto:media@erawa.com.au)