

25 November 2009

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Lyndon

Determination of Cost_LR Ancillary Service Parameters

Clause 3.13.3B(a) of the *Wholesale Electricity Market Rules* (**Market Rules**) requires that, by 30 November 2009, System Management submit a proposal for "Cost_LR" to the Economic Regulation Authority to apply for the period 1 July 2010 to 30 June 2013.

The proposed value for Cost_LR must be sufficient to cover the costs of providing Load Rejection Reserve Ancillary Service ("L") and System Restart Ancillary Service ("R").

System Management proposes the following values for Cost_LR:

| (\$ '000) | 2010/11 | 2011/12 | 2012/13 |
|-----------------------------------|---------|---------|---------|
| Load Rejection Reserve (L) | 0 | 0 | 0 |
| System Restart (R) | 250 | 800 | 800 |

Load Rejection Reserve

Load rejection service is defined in clause 3.9.6 of the Market Rules:

Load Rejection Reserve Service is the service of holding capacity associated with a Scheduled Generator or Dispatchable Load in reserve so that:

- (a) *the Scheduled Generator can reduce output rapidly; or*
 - (b) *the Dispatchable Load can increase consumption rapidly,*
- in response to a sudden decrease in SWIS load.*

A Load Rejection ancillary service allows the system frequency to be maintained within acceptable limits should there be an instantaneous loss of system load, which may occur should

a significant part of the network separate from the main system or voltage dip cause automatic disconnection of customer's equipment.

This service is maintained by shutting down generators as load decreases to maintain frequency standards.

It is noted that the costs associated with shutting down and starting up a generator is normally attributed to the Load Rejection service. However, the current design under the Market Rules requires generation facilities to start and stop their generators once a day without further financial compensation as part of their reserve capacity obligations. This is pursuant to clause 6.18.3 of the Market Rules, which provides:

No Commitment Compensation will be payable:

(a) ...

(b) for the first start in the Trading Day of a Scheduled Generator if the relevant Market Participant has Reserve Capacity Obligations in respect of that Facility; ...

Verve Energy currently provides Load Rejection Reserve as part of its balancing obligations.

Given the principle espoused in clause 6.18.3 of the Market Rules, System Management has not previously sought an allocation for the L factor in Cost_LR. System Management does not have information demonstrating that the provision of Load Rejection is at a particular annual (unremunerated) cost to any Market Participant, and has consequently made no change to the allocation of zero for Load Rejection Reserve ancillary service (L).

System Restart

System Restart Service is defined in clause 3.9.8 of the Market Rules:

System Restart Service is the ability of a Registered Facility which is a generation system to start without requiring energy to be supplied from a Network to assist in the re-energisation of the SWIS in the event of system shut-down.

System Management has established contracts to remunerate providers of System Restart service based on an annual availability fee. Importantly, participants contracted to provide System Restart services will be remunerated no more than the monthly availability payment derived under the applicable agreement, which is subject to downward adjustment based on availability provisions.

Until 30 June 2011 System Management has an arrangement with Verve Energy for the provision of System Restart from three sites (Pinjar, Kwinana and Tiwest). This year is the final year of a transitional arrangement entered into at the time of market commencement which allowed a smooth evolution from the previous regime where all such services were supplied "in-house" from the aggregated Western Power Corporation to a situation where supply (and pricing)

of System Restart service was competitively derived. Early commencement of processes to competitively procure ancillary services was strongly encouraged.¹

Clause 3.10.6 of the Market Rules requires System Management to set an appropriate standard for System Restart. Pursuant to this obligation, System Management's operational plans divide the SWIS into five sub-networks, with the intention to enter into appropriate arrangements for the provision of the service from each of these locations.²

To that end, during 2008 and 2009 and continuing into 2010 System Management has competitive procurement processes underway to provide System Restart for the SWIS. At minimum, System Restart will be necessary for the remaining two years of the Review Period, given the expiry of the transitional arrangement at the end of the Review Period's first year.

System Management has requested expressions of interest and, where necessary, requests for tender, in three of the five sub-networks. System Management is:

- finalising contractual negotiations for the provision of the service in the South Metropolitan sub-network;
- engaged in negotiations to supply the service in both South Country and North Metropolitan sub-networks; and
- shortly to commence procurement processes for the remaining portions of the SWIS.

System Management's proposed R value reflects its estimate of the likely cost of competitively procured System Restart Services in the SWIS. Importantly though, contracts for the supply of the service will only remunerate the provider where the relevant service is available. The market will not pay for a service which is not supplied.

System Management looks forward to assisting the Economic Regulation Authority in its assessment of the proposed Cost_LR parameters. Should you have any questions in relation to this, please contact Alistair Butcher on 9427 5787.

Yours sincerely,

Ken Brown
General Manager, System Management

¹ "However, the Authority considers that System Management's slow progress in this area [ancillary service procurement] is not meeting the expectations of the Market." (page 42, 2008 ERA Annual Wholesale Electricity Market Report to the Minister for Energy – Public Version); and
 "The Authority strongly supports further moves towards competitive procurement of ancillary services..." (page 76, 2008 report).

² For more information, refer to:
http://www.westernpower.com.au/mainContent/workingWithPower/systemManagement/System_Restart_Services.html