

# Ancillary Service Parameters Determination –

Margin\_Peak, Margin\_Off-Peak  
and Cost\_LR

31 March 2010

Economic Regulation Authority



WESTERN AUSTRALIA

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Economic Regulation Authority  
Perth, Western Australia  
Phone: (08) 9213 1900

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## Determination

1. On 11 December 2009 the Independent Market Operator (**IMO**) submitted to the Economic Regulation Authority (**Authority**) a proposal for the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters, and on 26 November 2009 System Management (a segregated unit of Western Power) submitted to the Authority a proposal for the Ancillary Service Cost\_LR parameter. Both proposals apply for the period from 2010/11 to 2012/13 (**review period**).
2. The proposed Ancillary Service Margin\_Peak and Margin\_Off-Peak, and Cost\_LR parameters were submitted in accordance with the requirements of clauses 3.13.3A and 3.13.3B, respectively, of the *Wholesale Electricity Market Rules* (**Market Rules**) under which the Authority is required to determine the Ancillary Service parameters for the review period.
3. The IMO's<sup>1</sup> and System Management's<sup>2</sup> submissions are available on the Authority's web site.
4. On 24 December 2009, the Authority issued: a notice inviting submissions on the proposed Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters; and an issues paper to assist interested parties in understanding and making submissions on the proposals. A single submission was received from Landfill Gas and Power Pty Ltd.
5. In making its determination, the Authority has taken into account the matters set out in clauses 3.13.3A(a) and 3.13.3B(a) of the Market Rules.
6. The Authority has determined that the values of the Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters for the review period will be as shown in Table 1 below.

**Table 1 Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters**

Ancillary service parameters	2010/11	2011/12	2012/13
Margin_Peak (%)	30	30	30
Margin_Off-Peak (%)	103	103	103
L value (of Cost_LR) (\$ per month)	0	0	0
R value (of Cost_LR) (\$ per month)	20,833	0	0

7. The reasons for this determination are set out below.

<sup>1</sup> See ERA web site, Independent Market Operator – 2009 Margin Peak and Margin Off-Peak Report (inclusive of an independent assessment by the consultant McLennan Magasanik Associates), [http://www.era.wa.gov.au/cproot/8212/2/20091224 Independent Market Operator - 2009 Margin Peak and Margin Off-Peak Report.pdf](http://www.era.wa.gov.au/cproot/8212/2/20091224%20Independent%20Market%20Operator%20-%202009%20Margin%20Peak%20and%20Margin%20Off-Peak%20Report.pdf)

<sup>2</sup> See ERA web site, System Management – Determination of Cost\_LR Ancillary Service Parameters, [http://www.era.wa.gov.au/cproot/8214/2/20091224 Western Power - Determination of Cost\\_LR Ancillary Service Parameters.pdf](http://www.era.wa.gov.au/cproot/8214/2/20091224%20Western%20Power%20-%20Determination%20of%20Cost_LR%20Ancillary%20Service%20Parameters.pdf)

## Reasons for the determination

### Legislative requirements

8. Clauses 3.13.3A and 3.13.3B of the Market Rules require the Authority to determine values for the Ancillary Service Margin\_Peak and Margin\_Off-Peak, and Cost\_LR parameters.
9. The Margin\_Peak and Margin\_Off-Peak parameters are used in the Ancillary Service settlement calculations under clause 9.9.2 of the Market Rules. The Cost\_LR parameter provides for the payment to a Market Generator for the costs of providing Load Rejection Reserve<sup>3</sup> and System Restart<sup>4</sup> Ancillary Services, and potentially Dispatch Support Ancillary Services.<sup>5</sup>
10. In determining values for the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters under clause 3.13.3A of the Market Rules, and Cost\_LR parameters under clause 3.13.3B of the Market Rules, the Authority must take into account the Wholesale Market Objectives and the submissions received from the IMO (proposing the Margin\_Peak and Margin\_Off-Peak parameters) and System Management (proposing the Cost\_LR parameter).
11. Clause 3.13.3A of the Market Rules establishes the requirements for the Authority's determination of the values for the Margin\_Peak and Margin\_Off-Peak parameters:
  - the IMO must submit a proposal for the values of the Margin\_Peak and Margin\_Off-Peak parameters by 30 November prior to the start of the review period;
  - the Authority must undertake a public consultation process in approving the values for the Margin\_Peak and Margin\_Off-Peak parameters, which must include publishing an issues paper and issuing an invitation for public submissions; and
  - by 31 March of the year in which the review period commences, the Authority must determine the values for the Margin\_Peak and Margin\_Off-Peak parameters for the review period.
12. Clause 3.13.3A(a) of the Market Rules sets out the factors that the Authority must take into account in determining the values of the Margin\_Peak and Margin\_Off-Peak parameters:

<sup>3</sup> In order to keep the power system stable, some generating units are selected to be shut down quickly in the event of lost load, such as when a transmission line trips. Such generators are providing the Ancillary Service defined under the Market Rules as 'Load Rejection Reserve'. It is noteworthy that while there could be a sudden loss of load, the power system often could sustain the loss through the interconnected network and the generators providing other Ancillary Services (such as Load Following Spinning Reserve) and therefore the Load Rejection Reserve generators may not need to be called upon. The Load Rejection Reserve generators are compensated through the Load Rejection Reserve Ancillary Service (being the 'L' value of the Cost\_LR parameter).

<sup>4</sup> System Restart Ancillary Services are provided by generators capable of starting up without the need to use power from the power system and are also able to energise the power system to enable other generators to be started up. After considering information about network flows, System Management has divided the South West interconnected system into five sub-regions for System Restart purposes, thereby (over time) requiring a System Restart unit in each of the sub-regions. The System Restart Ancillary Service (being the 'R' value of the Cost\_LR parameter) is designed to compensate generators for providing this service.

<sup>5</sup> Except those Dispatch Support Ancillary Services provided through clause 3.11.8B of the Market Rules.

- whether the IMO has taken account of the margin the Electricity Generation Corporation (**Verve Energy**) could reasonably have been expected to earn on energy sales foregone due to the supply of Spinning Reserve during Peak Trading Intervals (Margin\_Peak) and Off-Peak Trading Intervals (Margin\_Off-Peak); and
  - whether the IMO has taken account of the loss in efficiency of Verve Energy's Registered Facilities that System Management has scheduled to provide Spinning Reserve during Peak Trading Intervals and Non-Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves.
13. Clause 3.13.3B of the Market Rules establishes the requirements for the Authority's determination of the values for the Cost\_LR parameter:
- System Management must submit a proposal for the values of the Cost\_LR parameter by 30 November prior to the start of the review period;
  - the Authority must undertake a public consultation process in approving the values for the Cost\_LR parameter, which must include publishing an issues paper and issuing an invitation for public submissions; and
  - by 31 March of the year in which the review period commences, the Authority must determine the values for the Cost\_LR parameter for the review period.
14. In determining the values of the Cost\_LR parameter, clause 3.13.3B(a) of the Market Rules requires that the Authority take into account whether the values cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services, and potentially Dispatch Support Ancillary Services.<sup>6</sup>

## Proposed Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters

15. The IMO's proposed values for the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters and System Management's proposed values for the Ancillary Service Cost\_LR parameter are shown in Table 2.

**Table 2 Proposed Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters**

Ancillary Service parameters	2010/11	2011/12	2012/13
Margin_Peak (%)	30	30	30
Margin_Off-Peak (%)	103	103	103
L value (of Cost_LR) (\$)	0	0	0
R value (of Cost_LR) (\$)	250,000	800,000	800,000

<sup>6</sup> Except those Dispatch Support Ancillary Services provided through clause 3.11.8B of the Market Rules.

## Approach to assessment

16. The Authority has assessed the IMO's proposed values for the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters against the factors set out in clause 3.13.3A(a) of the Market Rules by consideration of a range of matters, including whether the IMO has taken account of:
  - the margin that Verve Energy could reasonably have been expected to earn on energy sales foregone due to the supply of Spinning Reserve during Peak Trading Intervals and Non-Peak Trading Intervals; and
  - the loss in efficiency of Verve Energy's Registered Facilities that System Management has scheduled to provide Spinning Reserve during Peak Trading Intervals and Non-Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves.
17. The Authority has assessed System Management's proposed values for the Ancillary Service Cost\_LR parameter against the factors set out in clause 3.13.3B(a) of the Market Rules by consideration of whether the proposed values cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services, and potentially Dispatch Support Ancillary Services.<sup>7</sup>

## Public submissions

18. In accordance with clauses 3.13.3A(b) and 3.13.3B(b) of the Market Rules, the Authority undertook public consultation on the proposed Ancillary Service Margin\_Peak, Margin\_Off-Peak and Cost\_LR parameters, including publishing an issues paper on 24 December 2009 and issuing an invitation for public submissions. The closing date for public submissions was 27 January 2010.
19. One submission was received from Landfill Gas and Power Pty Ltd.
20. Landfill Gas and Power Pty Ltd indicates support for the IMO's proposed values for the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters, it also indicates support for System Management's proposed values for the Ancillary Service Cost\_LR parameter.
21. In respect of the Ancillary Service Margin\_Peak and Margin\_Off-Peak parameters Landfill Gas and Power Pty Ltd notes:
  - a) that the determination of the parameters is complex and that the values have been recommended by consultants; and
  - b) acceptance of the significant increase in these parameters over their historical values, while also noting that the historical values have been below cost and have contributed to the financial difficulties of Verve Energy.
22. In respect of the Ancillary Service Cost\_LR parameter, Landfill Gas and Power Pty Ltd notes that despite the large increase in the R value, it represents the likely outcome of tender negotiations.

<sup>7</sup> Except those Dispatch Support Ancillary Services provided through clause 3.11.8B of the Market Rules.

## Margin\_Peak and Margin\_Off-Peak parameters

### *Determination from the first review period (2007/08 - 2009/10)*

23. In its determination of the Margin\_Peak and Margin\_Off-Peak parameters for the period 2007/08 to 2009/10 (**first review period**),<sup>8</sup> the Authority determined that the values prescribed in clause 3.13.3(a) of the Market Rules for Margin\_Peak and Margin\_Off-Peak, being 15 per cent and 12 per cent respectively, were adequate and should not be changed.
24. In assessing the margin values for the first review period the Authority noted that:
- it had not received submissions or indications from interested parties of any reason to alter the margins that Verve Energy could reasonably have been expected to earn on energy sales foregone due to the supply of Spinning Reserve;
  - the Authority had no evidence that suggested there have been changes which require revision of the values of loss in efficiency of Verve Energy's Registered Facilities if and when they are scheduled by System Management to provide the Spinning Reserve; and
  - the current major provider of the Ancillary Services, Verve Energy, had not indicated to the Authority that the current values of Margin\_Peak and Margin\_Off-Peak were inadequate.

### *Determination for this review period*

25. The IMO has proposed values for the Margin\_Peak and Margin\_Off-Peak parameters for the review period as shown in Table 2.<sup>9</sup>
26. Pursuant to the Authority's determination for the first review period, the Authority notes that the values for Margin\_Peak and Margin\_Off-Peak for the first review period were 15 per cent and 12 per cent respectively.
27. As shown in Table 3, the values proposed by the IMO for the review period represent a marked increase over those determined for the first review period.

**Table 3 Comparison of the actual Margin\_Peak and Margin\_Off-Peak parameters from the first review period against the proposed parameters for this review period**

Margin	First Review Period Actual	Second Review Period Proposed
Margin_Peak (%)	15	30
Margin_Off-Peak (%)	12	103

<sup>8</sup> See ERA web site, Authority's Decision - Allowable Revenue for System Management, pp.15-16, [http://www.era.wa.gov.au/cproot/5415/2/04\\_Decision\\_Paper\\_-\\_SM.pdf](http://www.era.wa.gov.au/cproot/5415/2/04_Decision_Paper_-_SM.pdf)

<sup>9</sup> See p.5.

28. In assessing the margin values proposed by the IMO, the Authority has noted the following.
- a) The Authority and the IMO jointly engaged the consultant McLennan Magasanik Associates (**MMA**) to undertake market modelling of the Wholesale Electricity Market (**WEM**) to assess the reserve availability cost<sup>10</sup> and hence determine margin values for the review period. MMA determined the margin values from the reserve availability cost, the system marginal price<sup>11</sup> and the capacity set aside for providing the reserve requirement.<sup>12</sup> MMA's final report, detailing the outcome of its review of the margin values, was submitted by the IMO in support of its proposed margin values for the review period.<sup>13</sup>
  - b) For the purpose of MMA's margins review, the Authority, the IMO and MMA sought advice from System Management on generating units (and the units' relevant technical information) that are likely to be available in each year of the review period.
  - c) MMA's report describes the key assumptions made in assessing the margin values and the effect of these assumptions on the determined margin values. In particular, one modelling assumption that resulted in the high proposed Margin\_Off-Peak value was the need to constrain-on generation units to provide reserve.<sup>14</sup> Based on advice from System Management and other analysis, the Authority is satisfied this modelling assumption will more likely reflect actual outcomes of constraining generation units to provide reserve services during the review period than other relative modelling scenarios that were considered during the course of the review.
  - d) During October 2009, the IMO held a workshop<sup>15</sup> on the 2009 Margin\_Peak and Margin\_Off-Peak review,<sup>16</sup> at which particular regard was given to the

<sup>10</sup> Reserve availability costs cover the generation efficiency losses that may be incurred to provide reserve through: a) movement to a less efficient point on a unit's heat rate curve; b) an increase in production from higher cost plant to counteract lower cost generation backed off to provide reserve; and c) additional start-up costs that may be incurred due to commitment of additional units that would otherwise not have been required.

<sup>11</sup> System marginal price reflects the highest cost unit dispatched to meet system demand, where units are dispatched in order of cost (lowest to highest).

<sup>12</sup> Pursuant to clause 3.11 of the Market Rules, System Management must determine the Ancillary Service Requirements on an annual basis and these must be set based on the facilities and configuration expected for the South West interconnected system in the coming year. System Management is required to determine the Ancillary Service Requirements for all the Ancillary Services prescribed under the Market Rules, including Spinning Reserve (in accordance with the provisions set out in clauses 3.11.1 and 3.11.5 of the Market Rules).

<sup>13</sup> See ERA web site, Independent Market Operator – 2009 Margin Peak and Margin Off-Peak Report (inclusive of an independent assessment by the consultant McLennan Magasanik Associates), [http://www.era.wa.gov.au/cproot/8212/2/20091224\\_Independent\\_Market\\_Operator\\_-\\_2009\\_Margin\\_Peak\\_and\\_Margin\\_Off-Peak\\_Report.pdf](http://www.era.wa.gov.au/cproot/8212/2/20091224_Independent_Market_Operator_-_2009_Margin_Peak_and_Margin_Off-Peak_Report.pdf)

<sup>14</sup> In normal circumstances generation units are dispatched in order of cost (lowest to highest). However, generally speaking, generation units that are more suitable to provide Ancillary Services, and therefore are dispatched, may not have been the generation units dictated in a strict dispatch merit order. Also, these unit(s) may need to be run above minimum stable generation level and this could result in the displacement of more efficient unit(s). The generation unit constrained-on modelling assumption is discussed in detail in MMA's final report. See ERA web site, Independent Market Operator – 2009 Margin Peak and Margin Off-Peak Report (inclusive of an independent assessment by the consultant McLennan Magasanik Associates), pp. 21-23, [http://www.era.wa.gov.au/cproot/8212/2/20091224\\_Independent\\_Market\\_Operator\\_-\\_2009\\_Margin\\_Peak\\_and\\_Margin\\_Off-Peak\\_Report.pdf](http://www.era.wa.gov.au/cproot/8212/2/20091224_Independent_Market_Operator_-_2009_Margin_Peak_and_Margin_Off-Peak_Report.pdf)

<sup>15</sup> The workshop was attended by representatives from Alinta, Landfill Gas & Power Pty Ltd, NewGen, Premier Power, Synergy and Verve Energy.

<sup>16</sup> See IMO web site, 2009 Margin\_Peak and Margin\_Off-Peak Review: Consultation on Fuel Price Assumptions, <http://www.imowa.com.au/n1286.html>

fuel prices and associated assumptions used in the modelling exercise. Workshop attendees requested that the review's proposed methodology be made available in order to allow the significance of the fuel price assumptions to be better understood. In response to this request, the IMO published MMA's assumptions and methodology report.<sup>17</sup> The IMO received three written submissions in response to MMA's assumptions and methodology report.<sup>18</sup> Subsequently, the IMO and MMA considered the matters raised in submissions and based on this consideration, MMA amended the review's assumptions and methodology to address the matters raised in submissions before issuing its final report.

- e) The determination of values for Margin\_Peak and Margin\_Off-Peak are dependent on the generation plant mix in terms of:
  - i) the capability of Verve Energy's generation units to provide Load Following and Spinning Reserve; and
  - ii) the generating cost characteristics of all the generation units in the system.

These factors – together with the system load and reserve requirement – determine the availability cost and the system marginal price from which the two margin values are determined. The resultant high value for Margin\_Off-Peak is due to a lack of efficiently priced plant capacity to meet the reserve requirements, as demonstrated by the need to constrain-on units overnight.<sup>19</sup>

- 29. On this basis, the Authority considers the proposed values for the Margin\_Peak and Margin\_Off-Peak parameters have adequately taken into account the matters set out in clause 3.13.3A(a) of the Market Rules. Accordingly, the Authority has determined that the values of the Margin\_Peak and Margin\_Off-Peak parameters for the review period are 30 per cent and 103 per cent respectively.

## Cost\_LR parameter

- 30. The Authority notes that System Management has proposed 'L' and 'R' values for the Cost\_LR parameter for the review period, being for Load Rejection and System Restart Ancillary Services requirements respectively, and these values are shown in Table 2.<sup>20</sup>
- 31. System Management has proposed a nil value for the Load Rejection Ancillary Service for each year of the review period ('L' value of the Cost\_LR parameter), which is the same as the value proposed in the first review period.
- 32. The value proposed by System Management for the System Restart Ancillary Service ('R' value of the Cost\_LR parameter) is higher for the last two years of the review period when compared to the actual 'R' values of the first review period. A comparison of the actual 'L' and 'R' values of the Cost\_LR parameter from the

<sup>17</sup> See IMO web site, MMA Assumptions and Methodology Report, [http://www.imowa.com.au/f1286.150582/2009\\_Margin\\_Peak\\_and\\_Margin\\_Off-peak\\_review\\_Assumptions\\_and\\_methodology.pdf](http://www.imowa.com.au/f1286.150582/2009_Margin_Peak_and_Margin_Off-peak_review_Assumptions_and_methodology.pdf)

<sup>18</sup> Written submissions were received from Alinta, Synergy and Verve Energy. See IMO web site, 2009 Margin\_Peak and Margin\_Off-Peak Review: Consultation on Fuel Price Assumptions, <http://www.imowa.com.au/n1286.html>

<sup>19</sup> See paragraph 28(c).

<sup>20</sup> See p.5.

first review period against the proposed 'L' and 'R' values for this review period is set out in Table 4.

**Table 4 Comparison of the actual 'L' and 'R' values of the Cost\_LR parameter from the first review period against the proposed 'L' and 'R' values for this review period**

Cost (\$ per year)	First Review Period			Second Review Period		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Proposed	Proposed	Proposed
L value (of Cost_LR)	0	0	0	0	0	0
R value (of Cost_LR)	250,000	250,000	250,000	250,000	800,000	800,000

33. In assessing the value proposed by System Management for the System Restart Ancillary Service ('R' value of the Cost\_LR parameter), the Authority has noted the following.

- a) Until 30 June 2011, System Restart Ancillary Services for the South West interconnected system (**SWIS**) will be provided only by Verve Energy under an arrangement organised prior to market commencement. This arrangement, which is remunerated at \$250,000 per annum, will expire at the end of the first year of the review period. Under this arrangement Verve Energy has provided the service from three sites, being Pinjar, Kwinana and Tiwest.
- b) Clause 3.10.6 of the Market Rules requires System Management to set an appropriate standard for System Restart Ancillary Service. Pursuant to this obligation, System Management's proposal notes that its operational plans divide the SWIS into five sub-networks.<sup>21</sup> System Management's proposal also notes its intention to enter into appropriate arrangements for the provision of the service in each of these sub-networks.<sup>22</sup>
- c) System Management's proposal sets out that during the period 2008 – 2010 it has engaged in competitive procurement processes to provide System Restart Ancillary Services for the SWIS, including for the last two years of the second review period (being the 2011/12 and 2012/13 financial years) and into the future. The System Management proposal notes that it has so far sought expressions of interest and, where necessary, issued requests for tender, for three of the five sub-networks, being the South Country, and North and South metropolitan sub-networks. The System Management proposal also notes it will shortly commence procurement processes for the remaining portions of the SWIS.
- d) System Management's proposal nominates an 'R' value of \$800,000 for each of the last two years of the review period, noting that this reflects System Management's estimate of the likely cost of competitively procuring System Restart Ancillary Services for the SWIS. System Management's proposal further advises that it is finalising contractual negotiations for the provision of

<sup>21</sup> See ERA web site, System Management – Determination of Cost\_LR Ancillary Service Parameters, p.3, [http://www.era.wa.gov.au/cproot/8214/2/20091224 Western Power - Determination of Cost\\_LR Ancillary Service Parameters.pdf](http://www.era.wa.gov.au/cproot/8214/2/20091224%20Western%20Power%20-%20Determination%20of%20Cost%20LR%20Ancillary%20Service%20Parameters.pdf)

<sup>22</sup> See Western Power web site, System Restart Services, [http://www.westernpower.com.au/mainContent/workingWithPower/systemManagement/System\\_Restart\\_Services.html](http://www.westernpower.com.au/mainContent/workingWithPower/systemManagement/System_Restart_Services.html)

the service in the South metropolitan sub-network and will be engaging in negotiations to supply the service in the South Country and North metropolitan sub-networks.<sup>23</sup>

- e) During March 2010, System Management advised the Authority of the following.<sup>24</sup>
    - i) System Management was still engaged in negotiations to procure a System Restart Ancillary Service in the North metropolitan sub-network; however, these negotiations had not yet resulted in a service being contracted in this sub-network.
    - ii) System Management no longer anticipated entering into a contract to provide a service in the South Country sub-network during the review period, as the capability to provide the service in this sub-network does not currently exist.<sup>25</sup> System Management advised that it expects that procuring a service in this sub-network will require a considerable lead time due to the need for any proponent to obtain relevant approvals and licences, as well as the purchase, installation and commissioning of a generating unit to provide the service.
34. System Management proposed an 'R' value reflecting its estimate of the likely cost of competitively procuring System Restart Ancillary Services for the SWIS. The Authority considers it is not appropriate to determine an 'R' value comprised of any costs to provide the service that are not currently contracted because of the way the Market Rules' Ancillary Service settlement mechanism operates.<sup>26</sup> Under this mechanism, any amount of the approved monthly Cost\_LR value not contracted, i.e. the balance remaining after payments for existing contracts are settled, is by default paid to Verve Energy even if Verve Energy does not have a contract to provide the service. As a result, any approved value of the Cost\_LR is allocated to existing contracts and any component of the approved Cost\_LR value not paid to a contract is allocated to Verve Energy.<sup>27</sup>
35. The price of the contract for the South metropolitan sub-network cannot be publically disclosed at this time as its disclosure may affect the ongoing contract negotiations for the North metropolitan sub-network.
36. The Authority notes that, under clause 3.13.3C of the Market Rules, by 30 November within a review period System Management may apply to the Authority for a determination of revised values of the Cost\_LR parameter for the

<sup>23</sup> See ERA web site, System Management – Determination of Cost\_LR Ancillary Service Parameters, p.3, [http://www.era.wa.gov.au/cproot/8214/2/20091224 Western Power - Determination of Cost\\_LR Ancillary Service Parameters.pdf](http://www.era.wa.gov.au/cproot/8214/2/20091224%20Western%20Power%20-%20Determination%20of%20Cost_LR%20Ancillary%20Service%20Parameters.pdf)

<sup>24</sup> System Management, e-mail correspondence, 15 March 2010.

<sup>25</sup> In providing this advice that it would likely only contract System Restart Ancillary Services in two sub-networks (instead of three) during the review period, System Management revised downward its proposed 'R' value for the provision of the service in the SWIS for the review period.

<sup>26</sup> See Clause 9.9.1 of the Market Rules. Payment for provision of the Ancillary Service occurs on a monthly basis.

<sup>27</sup> The Authority notes that, pursuant to clauses 3.11.7 and 3.11.7A of the Market Rules, System Management must make an annual plan describing how it will ensure that the Ancillary Service Requirements are met from Verve Energy's facilities and Rule Participant's facilities (where System Management has contracted with those participants to provide Ancillary Services). Also, Verve Energy must make its capacity available from its facilities to System Management to provide Ancillary Services to a standard sufficient to enable System Management to meet its obligations in accordance with the Market Rules.

following financial year where System Management determines Cost\_LR to be materially different than the costs provided for during the review period.<sup>28</sup>

37. Given these circumstances, the Authority determines that the 'R' value of the Cost\_LR parameter is \$250,000 in the first year of the review period (the 2010/11 financial year) and nil for the second and third years of the review period (the 2011/12 and 2012/13 financial years). The Authority anticipates that System Management will submit a revision for the Cost\_LR values by 30 November 2010, which will include a proposed 'R' value for System Restart Ancillary Services in both the North and South metropolitan sub-networks.
38. Accordingly, given the allowed costs for Load Rejection and System Restart Ancillary Services discussed above, for the purpose of clause 3.13.1(c) of the Market Rules, the Authority determines that the value for the Cost\_LR parameter for each month during the first year of the second review period to be \$20,833 per month and for each month during the second and third years of the review period to be \$0 per month.

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<sup>28</sup> The mechanism for an annual revision of the Cost\_LR parameter values was introduced into the Market Rules as a part of the Rule Change Proposal RC\_2009\_23 'System Management Review Period Budget Coverage Amendment'. This Rule Change was accepted and commenced on 30 November 2009. See IMO web site, Rule Change: RC\_2009\_23, [http://www.imowa.com.au/RC\\_2009\\_23](http://www.imowa.com.au/RC_2009_23)