

Determination of the Ancillary Service Cost_LR parameter

20 April 2011

Economic Regulation Authority



WESTERN AUSTRALIA

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DETERMINATION

1. Pursuant to clause 3.13.3C of the *Wholesale Electricity Market Amending Rules (Market Rules)*, the Economic Regulation Authority (**Authority**) has determined the revised values for System Restart Ancillary Service,¹ the 'R' values of the Cost_LR parameter,² for the 2011/12 and 2012/13 financial years as shown in Table 1.

Table 1 Revised System Restart ('R') values for the Cost_LR parameter

	2011/12 (\$ per month)	2012/13 (\$ per month)
Revised 'R' value (of Cost_LR)	40,933	41,583

2. The values for Load Rejection Reserve Ancillary Service, the 'L' values of the Cost_LR parameter, for the 2011/12 and 2012/13 financial years remain as nil.

REASONS

Background

3. Clause 3.13.3C of the Market Rules establishes the requirements for the Authority's determination of the revised values for the Cost_LR parameter:
 - by 30 November within a Review Period³ System Management may submit to the Authority for determination of revised values for the Cost_LR parameter for the following financial year if System Management determines Cost_LR to be materially different than the costs provided for during the Review Period;
 - in determining revised values for the Cost_LR parameter, the Authority must take into account the Wholesale Market Objectives, the submission received from System Management (proposing revised values for the Cost_LR parameter), and whether the values cover the costs for providing the Load

¹ System Restart Ancillary Service is provided by Market Generators that are 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, upon 'black system' conditions (System Management defines black system conditions as 'the absence of voltage on all or a significant part of the transmission system or within a sub-network following a major supply disruption, affecting a significant number of customers'). After considering information about network flows, System Management has divided the South West Interconnected System into five sub-networks for System Restart purposes, thereby requiring a System Restart unit in each of the sub-networks.

² The Cost_LR parameter covers the payment to a Market Generator for the costs of providing the Load Rejection Reserve and System Restart Ancillary Services, and Dispatch Support Ancillary Services that are not provided under special Dispatch Support Ancillary Service contracts entered by System Management (see clause 3.11.8B of the Market Rules).

³ Under the Market Rules, a Review Period is a financial triennium that relates to the process of proposal, assessment and determination of the Allowable Revenue of System Management. The current Review Period covers the period from 1 July 2010 to 30 June 2013.

Rejection Reserve and System Restart Ancillary Services, and potentially Dispatch Support Ancillary Services;⁴ and

- the Authority may undertake a public consultation process in determining the revised values for the Cost_LR parameter, which must include publishing an issues paper and issuing an invitation for public submissions.
4. On 5 November 2010, System Management submitted to the Authority the proposed revised 'R' values of the Cost_LR parameter for two financial years from 1 July 2011 to 30 June 2013. System Management's submission is available on the Authority's website.⁵

Public consultation process

5. On 24 December 2010, the Authority published a notice inviting submissions on the determination of the Ancillary Service Cost_LR, Margin_Peak and Margin_Off-Peak parameters.⁶ The Authority also published an issues paper to assist interested parties in understanding and making submissions on the proposals. The period for public submissions closed on 27 January 2011.
6. One submission was received from ERM Power in relation to the proposed revised 'R' values of the Cost_LR parameter. ERM Power's submission is available on the Authority's website.⁷
7. ERM Power noted that no supporting information was provided for the proposed revised 'R' values and as such it was not possible to verify the sensibility of the proposed costs. ERM Power requested that further details be provided to Market Participants.

The Authority's assessment

8. In its 2010 determination,⁸ the Authority determined the 'R' values of the Cost_LR parameter to be nil for the 2011/12 and 2012/13 financial years. This was due to negotiations for System Restart Ancillary Services having not been finalised by

⁴ Except those Dispatch Support Ancillary Services provided through clause 3.11.8B of the Market Rules.

⁵ See ERA website, *System Management – Determination of Cost_LR Ancillary Service Parameters*, http://www.erawa.com.au/cproot/9184/2/20101224_System_Management_-_Determination_of_Cost_LR_Ancillary_Service_Parameters.pdf

⁶ Pursuant to clause 3.13.3A of the Market Rules, the Authority is required to determine values for the Margin_Peak and Margin_Off-Peak Ancillary Service parameters for each financial year. The Authority published its determination of these parameters for the 2011/12 financial year on 31 March 2011. See ERA website, *Determination of Ancillary Service Margin Peak and Margin Off-Peak Parameters for the 2011/12 Financial Year*, http://www.erawa.com.au/cproot/9479/2/20110331_Determination_of_the_Ancillary_Service_Margin_Peak_and_Margin_Off-Peak_Parameters.pdf

⁷ See ERA website, *ERM Power – Determination of Ancillary Cost_LR, Margin_Peak and Margin_Off-Peak Parameters*, <http://www.erawa.com.au/cproot/9333/2/20110203%20Public%20Submission%20-%20ERM%20Power%20Limited.pdf>

⁸ See ERA website, *Ancillary Service Parameters Determination – Margin_Peak, Margin_Off-Peak and Cost_LR* (covering the financial triennium from 2010/11 to 2012/13), http://www.erawa.com.au/cproot/8441/2/20100401_Ancillary_Service_Parameters_Determination_-_Margin_Peak_Margin_Off-Peak_and_Cost_LR.pdf

- System management, and the inability for the Authority to determine either an estimate of the overall cost or the cost of the contracts being negotiated (as this could affect the on-going contract negotiations at the time).
9. In assessing System Management's proposed revised 'R' values, the Authority notes the following.
 - System Restart Ancillary Services are currently provided only by Verve Energy under a contractual arrangement organised prior to the commencement of the Wholesale Electricity Market in Western Australia. This arrangement expires at the end of the first year of the current Review Period, i.e. on 30 June 2011.
 - Clause 3.10.6 of the Market Rules requires System Management to set a standard for System Restart Service that is sufficient to meet its operational plans. The South West Interconnected System (**SWIS**) has been divided into five sub-networks in System Management's operational plans for System Restart purposes.⁹ System Management has advised that it requires at least three generating stations to provide System Restart Ancillary Services in the SWIS.
 - System Management has undertaken a competitive tender process for procuring the System Restart Service required in the three sub-networks to commence on 1 July 2011. System Management noted that while competitive procurement resulted in offers for services in two sub-networks (for five years duration each), no offers were received for one sub-network. As a result, System Management directly negotiated a fee for service for the sub-network without offers for a two year term. It was envisaged that the shorter term would provide opportunities for new facilities to be built in the area.
 10. The Authority has assessed the proposed revised 'R' values against the factors set out in clause 3.13.3C of the Market Rules by taking into account:
 - the Wholesale Market Objectives;
 - whether the proposed revised values sufficiently cover the costs for providing the required System Restart Service; and
 - the issues raised in the public submission received.
 11. The Authority has taken into account whether the proposed values are consistent with the Wholesale Market Objectives. The Authority notes that System Management has sought to competitively procure all three System Restart services that are due to commence on 1 July 2011. The Authority considers that this practice is consistent with Wholesale Market Objective d) *to minimise the long-term cost of electricity supplied to customers from the SWIS*.¹⁰ The Authority also considers that System Management has taken a reasonable and prudent course of action in choosing to directly negotiate a fee for service for a third (required) System

⁹ 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)

¹⁰ The Authority considers that the allowed costs for contracting System Restart services in the SWIS (as set out in this determination) will not reduce the extent of the other four components of the Wholesale Market Objectives.

Restart service for a shorter duration of two years (i.e. compared to the two competitively procured services which have a duration of five years each).

12. The Authority is of the view that System Management's proposed revised 'R' values should be sufficient to cover the costs of the three contractual arrangements negotiated by System Management in meeting the System Restart Ancillary Services requirements in the SWIS for the 2011/12 and 2012/13 financial years.
13. The Authority has considered the public submission received on the proposed revised 'R' values. The Authority notes that details of the proposed System Restart Service contracts between System Management and the preferred service providers cannot be disclosed due to their commercially sensitive nature. The Authority considers that even disclosing the cost of individual proposed contracts (i.e. by sub-network) is not prudent, as such a disclosure may detrimentally affect System Management's future negotiations for provision of System Restart Ancillary Services.

CONCLUSION

14. Based on the assessment discussed above, the Authority determines that the value of the Cost_LR parameter to be \$491,200 per annum, or \$40,933 per month in the 2011/12 financial year, and \$499,000 per annum, or \$41,583 per month in the 2012/13 financial year.