

Determination of the Ancillary Service Cost_LR Parameters for 2016/17 to 2018/19

Issues Paper

7 January 2016

Economic Regulation Authority

WESTERN AUSTRALIA

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Introduction

Cost_LR values

The *Wholesale Electricity Market Rules (Market Rules)*¹ require the Economic Regulation Authority (**Authority**) to determine the Cost_LR values for each year of the Review Period by 31 March 2016. The Review Period to which the determination applies is from 1 July 2016 to 30 June 2019.

The Cost_LR values cover the costs for market generators providing Load Rejection Reserve Service, System Restart Service and Dispatch Support Services that are not paid under specific contracts.² The determined values represent the maximum amount the market will be called upon to pay for these services.

Load Rejection Services are provided by generators that are selected to be shut down quickly in the event of lost load, such as when a transmission line trips. This service is required in order to maintain system frequency within acceptable limits. Generators providing Load Rejection Services are compensated through the “L” component of the Cost_LR parameter.

System Restart Services are provided by generators capable of starting up on black system conditions and are also able to energise the power system to enable other generators to be started up. System Management has divided the South West Interconnected System into three sub-network areas for System Restart purposes, thereby requiring a System Restart unit in each of the three sub-network areas, being North Metropolitan, South Metropolitan and South Country. Generators providing System Restart Services are compensated through the “R” component of the Cost_LR parameter.

Market Rules requirements

The Market Rules³ provide that where System Management intends to enter into an Ancillary Service Contract⁴, it must seek to minimise the cost of meeting its obligations under clause 3.12.1,⁵ and give consideration to using a competitive tender process, unless System Management considers that this would not minimise the cost of meeting these obligations.

The Market Rules⁶ require System Management to submit a proposal for the Cost_LR values to the Authority by 30 November of the year prior to the start of the Review Period. System Management submitted its Cost_LR proposal for the Review Period from 1 July 2016 to 30 June 2019 on 24 November 2015. A confidential attachment that details the indicative costs for each System Restart contract for the Review Period has also been

¹ Clause 3.13.3B.

² Clause 3.13.3B(a) of the Market Rules.

³ Clause 3.11.9.

⁴ Clause 3.11.8A provides System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve Service, System Restart Service or Dispatch Support Service.

⁵ Clause 3.12.1 provides System Management must schedule and dispatch facilities to meet the Ancillary Service Requirements in each Trading Interval in accordance with Chapter 7.

⁶ Clause 3.13.3B(a).

provided to the Authority. System Management's proposal, without the confidential attachment, is available on the Authority's website.⁷

Under the Market Rules,⁸ the Authority must determine the Cost_LR values, taking into account the Wholesale Market Objectives⁹ and System Management's Cost_LR proposal. The Cost_LR values must cover the costs for providing the Load Rejection Reserve, System Restart Service, and Dispatch Support Service, except those provided through clause 3.11.8B of the Market Rules.

In determining the Cost_LR values, the Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.¹⁰ The Authority has prepared this issues paper to assist interested parties in making submissions on the proposed Cost_LR values for the Review Period of 1 July 2016 to 30 June 2019, as submitted by System Management.

⁷ See ERA website, Load Rejection (Cost_LR), https://www.erawa.com.au/electricity/wholesale-electricity-market/determinations/ancillary-services-parameters/load-rejection-cost_lr

⁸ Clause 3.13.3B.

⁹ The Wholesale Electricity Market objectives are provided for under clause 1.2 of the Market Rules.

¹⁰ Required by clause 3.13.3B(b) of the Market Rules.

Invitation to make submissions

Interested parties are invited to make submissions on the Authority's issues paper by **4:00 pm (WST) Friday, 5 February 2016** via:

Email address: publicsubmissions@erawa.com.au

Postal address: PO Box 8469, PERTH BC WA 6849

Office address: Level 4, Albert Facey House, 469 Wellington Street, Perth WA 6000

Fax: 61 8 6557 7999

CONFIDENTIALITY

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of section 55 of the *Economic Regulation Authority Act 2003*.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

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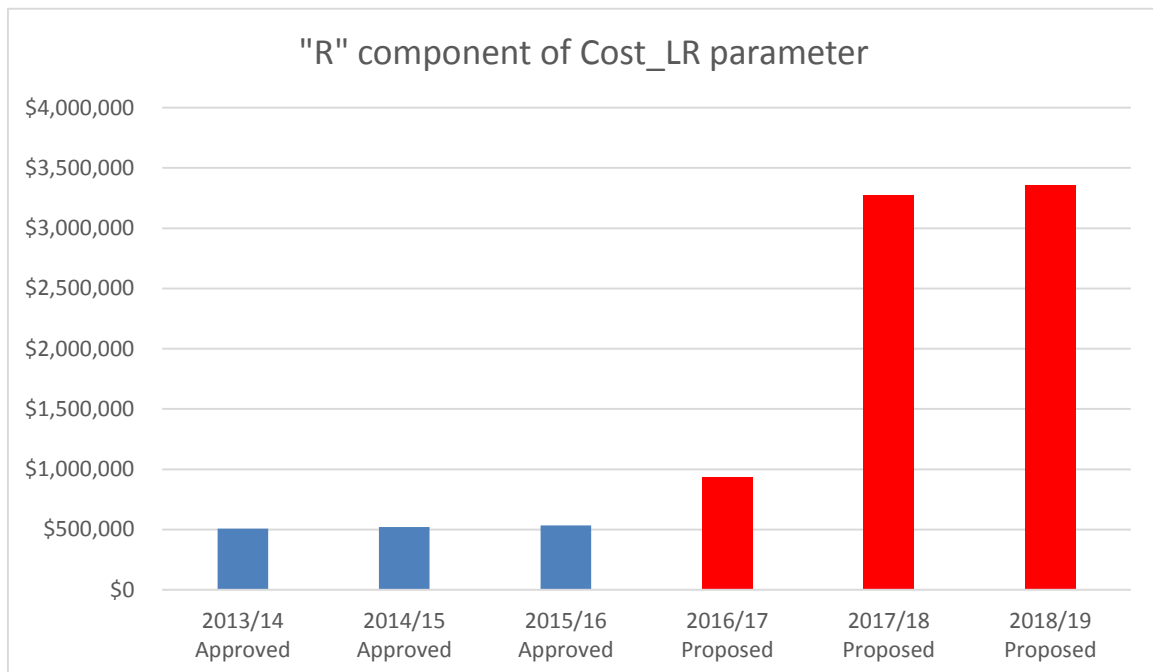
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Proposed Cost_LR values

The table and chart below show the proposed Cost_LR values for the Review Period from 1 July 2016 to 30 June 2019, compared with the approved Cost_LR values for 1 July 2013 to 30 June 2016.

Proposed and approved Cost_LR values

Cost_LR parameter	2013/14 Approved (\$ per annum)	2014/15 Approved (\$ per annum)	2015/16 Approved (\$ per annum)	2016/17 Proposed (\$ per annum)	2017/18 Proposed (\$ per annum)	2018/19 Proposed (\$ per annum)
"L" component	0	0	0	0	0	0
"R" component	508,000	521,000	534,000	929,000	3,273,000	3,355,000



Load Rejection Reserve

Currently all Load Rejection Reserve Ancillary Services are provided by Synergy as part of its ancillary service obligations under clause 3.11.7A of the Market Rules. As submitted by System Management and approved by the Authority at the last review, the current value of the "L" component is zero.

System Management engaged SKM Jacobs to conduct a Load Rejection study in June 2014 to determine the extra costs involved in providing Load Rejection Reserve Ancillary Services. System Management provided a confidential version of the report on the study to the Authority, and it also presented the results to the Market Advisory Committee at a meeting on 13 August 2014.

System Management has included in its Cost_LR proposal a graph that provides the forecast annual cost for various levels of Load Rejection. It states in its proposal that there

is no confirmed requirement of any need to increase the level of Load Rejection Reserve Ancillary Service from the 2014 level of 120MW.¹¹ Consequently, System Management has made no change to the allocation of zero for the “L” component for the Review Period from 1 July 2016 to 30 June 2019.

System Management states in its proposal that should future requirements for increased Load Rejection Reserve Ancillary Service be confirmed that require a change to the current level of Load Rejection over the Review Period, System Management will seek to submit an updated proposal, in accordance with clause 3.13.3C(a)¹² of the Market Rules.

System Restart

System Management must determine all Ancillary Service Requirements, in accordance with the SWIS Operating Standards and the Ancillary Service Standards.

System Management’s Ancillary Services Report 2015,¹³ approved by the Independent Market Operator, details the requirements and plans for System Restart. System Management considers that System Restart services should not be at the same location so as to mitigate the risk of common failure in the same geographic or electrical sub-network areas. It also considers there should be a restart capability in each of the three electrical sub-networks being North Metropolitan, South Metropolitan and South Country.

The report states that without this diversity, the risk of a generator being unable to start for extended periods is increased, due to it being dependant on supply from a remote black start location where the restart path is not subject to network failures. This is particularly the case for generators with long start up times in the South Country, should they need to be started from metropolitan black start providers.

Synergy must make its capacity to provide Ancillary Services from its Facilities available to System Management to a standard sufficient to enable System Management to meet its obligations in accordance with the Market Rules. System Management may enter into an Ancillary Service Contract for System Restart Services with other Rule Participants. Where it intends to enter into an Ancillary Service Contract, System Management must seek to minimise the cost of meeting its obligations in relation to scheduling and dispatching facilities to meet the Ancillary Service Requirements. It must give consideration to using a competitive tender process, unless it considers this would not minimise the cost of meeting its obligations.

Currently, System Management has contractual arrangements with Synergy to provide System Restart services in the South Metropolitan and North Metropolitan sub-network area¹⁴, and with Perth Energy to provide System Restart services in the South Metropolitan

¹¹ The graph shows Load Rejection Reserve cost of zero at the quantity of 120MW.

¹² Clause 3.13.3C(a) provides System Management must submit an updated proposal for the Cost_LR parameter to the Authority by 30 November of the year prior to the start of the relevant financial year if System Management determines Cost_LR for the following financial year to be materially different than the costs provided under clause 3.13.3B of the Market Rules, and the Authority must determine the revised values for Cost_LR taking into account the Wholesale Market Objectives.

¹³ AEMO website, Ancillary Services Report 2015, 12 August 2015, <http://wa.aemo.com.au/docs/default-source/System-Management-Reports/final-2015-ancillary-services-report-for-imo-website.pdf?sfvrsn=0>

¹⁴ The Kwinana_GT1 facility is contracted to provide System Restart services at the South Metropolitan sub-network area and the Pinjar_GT3 and Pinjar_GT5 facilities are contracted to provide System Restart services at the North Metropolitan sub-network area.

sub-network area.¹⁵ These contractual arrangements expire on 30 June 2016. There is currently no System Restart provider in the South Country sub-network area, as previous attempts to procure a service in that area were unsuccessful.

System Management's proposal states that a procurement process is currently underway for System Restart services for the three sub-network areas beyond 30 June 2016, and it has received indicative pricing from potential providers. System Management's proposed values for the "R" parameter are based on this information, allowing for an escalation rate of 2.5% per annum¹⁶ over the Review Period.

The table above shows a significant increase in the value for System Restart from the values approved at the last review. System Management states that this reflects the indicative pricing from potential providers received during the tender process. System Management notes that the significant step change in 2017/18 is primarily due to the potential commencement of a service in the South Country sub-network area and the associated investment required for this service to be available.

System Management notes the proposed System Restart values are subject to variation as negotiations for these contracts are in progress, and has expressed its intention to provide a revised Cost_LR proposal, with updated "R" values, once the procurement processes conclude.

The Authority notes that System Management has provided a confidential attachment to its proposal that details the indicative cost for each System Restart contract for the Review Period.

As part of the Authority's determination, it will assess whether System Management has sought to minimise the cost of System Restart Services.

The Authority will examine each of the System Restart Ancillary Service contracts and System Management's Cost_LR proposal, and consider whether it meets the Wholesale Market Objectives.¹⁷ In particular, the Authority will make an assessment of whether the proposed System Restart Services achieve objective (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System, while also achieving objective (d) to minimise the long-term cost of electricity supplied to customers from the South West Interconnected System.

In light of the limited information provided by System Management in support of its Cost_LR proposal, the Authority intends to seek additional information from System Management for the purpose of the Authority's determination, which will include but not be limited to:

- Details on the procurement process undertaken by System Management for the System Restart Ancillary Service contracts for the Review Period.
- Details on each of the System Restart Ancillary Service contracts to be procured by System Management for the Review Period.

The Authority notes that if during the Review Period (i.e. 2016/17 to 2018/19), System Management determines that the costs for System Restart Ancillary Services for the

¹⁵ The Perth Energy Kwinana_GT1 facility is contracted to provide System Restart services at the South Metropolitan sub-network area.

¹⁶ System Management states the escalation rate is based on the Department of Treasury Consumer Price Index Forward Estimates.

¹⁷ As provided under clause 1.2 of the Market Rules.

following financial year are materially different from those provided to the Authority when making its approval, then System Management must submit, and the Authority must determine, a revised value.

Submissions are invited from interested parties on:

- The proposed values for the Ancillary Service Cost_LR parameter from 1 July 2016 to 30 June 2019 by System Management.
- Whether the proposed System Restart Services achieve the Wholesale Market Objectives, in particular, objective (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System, while also achieving objective (d) to minimise the long-term cost of electricity supplied to customers from the South West Interconnected System.