

30 November 2018

Rajat Sarawat
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Dear Rajat,

MARGIN VALUES PROPOSAL FOR THE 2019/20 FINANCIAL YEAR

SUBMISSION OF PROPOSED MARGIN VALUES FOR 2019/20

In accordance with clause 3.13.3A(a) of the Wholesale Electricity Market Rules (**WEM Rules**), the Australian Energy Market Operator (**AEMO**) is pleased to provide the Economic Regulation Authority (**ERA**) with its proposal for the values of the parameters Margin_Peak and Margin_Off-Peak (**margin values**)¹ to apply during the 2019/20 Financial Year.

PROCESS

AEMO engaged Ernst & Young (**EY**) to provide an independent assessment of the margin values for the 2019/20 Financial Year. EY has produced a confidential report (*Margin Values Review for 2019/20 – Confidential Version*) (**the Report**), which is attached for your consideration.

PROPOSED MARGIN VALUES FOR 2019/20

In accordance with the recommendations of the Report, AEMO proposes the following margin values to apply during the 2019/20 Financial Year:

Margin values	Proposed (2019–20)		Approved (2018–19)	
	Peak	Off-Peak	Peak	Off-Peak
Margin (%)	17.32	12.92	25	50
Average Annual Spinning Reserve Capacity (MW)	235.4	236.4	224.1	189.0
Modelled Balancing Price (\$/MWh)	56.48	46.08	54.44	39.52
Estimated Annual Availability Cost (\$M)	6.91	3.43	7.97	5.09
Total Estimated Annual Availability Cost (\$M)	10.34		13.06	

A discussion of the key drivers for the changes in margin values is presented in the Report.

DETERMINATION OF MARGIN VALUES

AEMO notes the following process changes and improvements that have been implemented since the 2018/19 margin values review:

- This year AEMO was required to calculate proposed margin values for the 2019/20 Financial Year [clause 3.13.3A(a) of the WEM Rules] and calculate a proposed Cost_LR value for the 2019/20,

¹ AEMO's obligations regarding the margin values review are outlined in clause 3.13.3A of the WEM Rules.

2020/21 and 2021/22 Financial Years [clause 3.13.3B(a) of the WEM Rules] for submission by 30 November 2018. Given the similar nature of the methodologies for these reviews, AEMO engaged one consultant to provide consultancy services in support of both reviews in order to ensure consistent modelling outcomes.

- AEMO undertook a competitive tender process to engage a consultant. On 21 June 2018, AEMO held a workshop, which was attended by representatives from six prospective consultants. AEMO subsequently received and evaluated three submissions, and EY was appointed as the consultant.
- On 31 August 2018, AEMO published the WEM Modelling and Back-casting Report on the Market Web Site.² This report provided an overview of the model used to simulate the Wholesale Electricity Market, including key inputs and outputs used, and outlined the results of the back-casting exercise.
- On 14 September 2018, AEMO published a draft public version of an the Assumptions Report (prepared by EY) on the Market Web Site,² and invited interested stakeholders to provide written submissions on this report. Two written submissions were received. The final assumptions, including AEMO's opinion on the submissions, are included in the Report.
- The confidential version of the draft Assumptions Report included assumptions regarding the generation facilities of 18 Market Generators. AEMO provided each of the 18 Market Generators, including Synergy, with the specific assumptions relating to its generation facilities, and requested feedback. 13 Market Generators provided feedback, and a number of input assumptions were updated.
- The ERA's Determination of the Ancillary Service Margin Peak and Margin Off-Peak Parameters for the 2018/19 Financial Year³ made several recommendations, which AEMO and EY have considered. These recommendations, and the actions taken, are summarised in detail in section 2.5 of the Report.

Please contact Mark Katsikandarakis on (08) 9469 9932 if you have any queries or would like to discuss further.

Kind regards



Martin Maticka
Group Manager, WA Markets

Attachments:

- Report: Margin Values Review for 2019/20 – Confidential Version

² Available here <https://www.aemo.com.au/Electricity/Wholesale-Electricity-Market-WEM/Security-and-reliability/Ancillary-services/Ancillary-Services-Parameters>.

³ Available here https://www.erawa.com.au/electricity/wholesale-electricity-market/ancillary-services-parameters/spinning-reserve-margin_peak-and-margin_off-peak.