Our Reference: DMS# 3386907
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Determination of the Ancillary Service Cost LR, Margin Peak and Margin Off-Peak parameters - Issues Paper
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

by email: publicsubmissions@era.wa.gov.au

RE: DETERMINATION OF THE ANCILLARY SERVICE COST LR, MARGIN PEAK AND MARGIN OFF-PEAK PARAMETERS - ISSUES PAPER

Dear Mr Rowe,

Synergy is pleased to provide this submission to the Economic Regulation Authority (**Authority**) concerning the Determination of the Ancillary Service Cost LR, Margin Peak and Margin Off-Peak parameters - Issues Paper (**Issues Paper**).

Process

Clause 3.13.3A of the Wholesale Electricity Market Rules (**Market Rules**) requires the Authority, by 31 March prior to the start of each financial year, to determine values for the Margin Peak and Margin Off-Peak parameters. The Authority is obliged to take into account the Wholesale Market Objectives and a proposal submitted by the Independent Market Authority (**IMO**) and is required to release an issues paper for consultation.

Similarly, clause 3.13.3C of the Market Rules requires the Authority to determine the revised values applicable within a Review Period for the Cost LR parameter by taking into account the Wholesale Market Objectives and a proposal submitted by System Management and again must undertake public consultation.

Synergy considers that the Authority has endeavoured to meet its obligations under clauses 3.13.3A and 3.13.3C by releasing the Issues Paper which highlights aspects of the proposals submitted by the IMO and System Management. Synergy believes that the Authority now has a responsibility to consider the comments made in public submissions, such as this one, in formulating its final assessment of the parameters.

Additionally, Synergy considers that the Authority should reveal how the Wholesale Market Objectives have been met.

Proposed Values

Synergy notes that there has been considerable change in the proposed values for the Margin Peak and Margin Off-Peak variables. In this respect we provide the following comments:

Representation of costs

What are the reasons for the increase in Margin Peak? These were not outlined in the Issues Paper, which makes it difficult to make an informed comment. Synergy needs to have confidence that the numbers are a fair and reasonable representation of costs to be recovered by the Ancillary Service Provider as these costs will be passed on to customers.

Typically, the Marginal Cost Administered Price (**MCAP**) is higher in peak and lower in off-peak. Given the proposed increase in the Margin Peak and decrease in the Margin Off-Peak parameters, it is unclear whether the total availability cost will be higher or lower than previously forecast. Either way, explanations should be provided to inform the market so it can form a view of cost trends and changes in efficiencies in the provision of Ancillary Services.

Load following reserve

Synergy notes that the 2010 Statement of Opportunities[1] lists 60 MW as the load following capacity requirement for the 2011/12 capacity year and also lists the Collgar Wind Farm as a Registered Facility in the same year. In contrast, the consultant's 2010 Margin Peak and Margin Off-Peak report[2] (**Report**) assumes a higher load following requirement at 72 MW. It is unclear why the modelling has been based on a value higher than that set out in the Statement of Opportunities, a report that has standing under the Market Rules.

Synergy suggests that an anomaly would be created if Individual Reserve Capacity Requirement (**IRCR**) costs and Ancillary Service costs were based on different values of the same load following capacity variable. Allowing this differential to prevail may establish an unwelcome precedent and lead to unexpected volatility in market costs. That is, what reliance can market participants place on published values that are fixed for some market charge calculation purposes in regard to a particular time period but possibly not for others?

Basing the modelling on a higher initial value for load following capacity will presumably result in higher load following costs to be borne by market participants and end use customers.

Wind farm modelling

Synergy notes that section 4.5.2 of the Report makes reference to the Collgar Wind Farm as having 250 MW installed capacity, resulting in an increase in load following requirement of ±35 MW. This appears to be a reference to the previous year's assumption as section 5, which details the results, states that a capacity of 200 MW was modelled and that the associated load following requirement was 28 MW (and not 35 MW as listed in section 4.5.2). Synergy seeks assurance that the underlying models have in fact been updated to reflect the latest assumption for Collgar and that the results remain valid.

If you have any questions concerning the submission please do not hesitate to contact me on 6212 1125 or catherine.rousch@synergy.net.au.

[1] *2010 Statement of Opportunities*, July 2010, Independent Market Operator, Table 3 – Capacity required to satisfy peak demand criterion p. 42 and Appendix 9 Facility Capacities p. 75.
[2] 2010 Margin_Peak and Margin_Offpeak Review, Final Report to IMO, 17 November 2010, SKM MMA, p. 25.

Regards,

Catherine Rousch
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Synergy