

Determination of the Ancillary Service Cost_LR parameters

Issues Paper

18 December 2012

Economic Regulation Authority

WESTERN AUSTRALIA

Important Notice

This document has been compiled in good faith by the Economic Regulation Authority (**Authority**). The document contains information supplied to the Authority from third parties. The Authority makes no representation or warranty, express or implied, as to the accuracy, completeness, reasonableness or reliability of the information supplied by those third parties.

This document is not a substitute for legal or technical advice. No person or organisation should act on the basis of any matter contained in this document without obtaining appropriate professional advice. The Authority and its staff members make no representation or warranty, expressed or implied, as to the accuracy, completeness, reasonableness or reliability of the information contained in this document, and accept no liability, jointly or severally, for any loss or expense of any nature whatsoever (including consequential loss) arising directly or indirectly from any making available of this document, or the inclusion in it or omission from it of any material, or anything done or not done in reliance on it, including in all cases, without limitation, loss due in whole or part to the negligence of the Authority and its employees.

This notice has effect subject to the *Competition & Consumer Act 2010 (Cwlth)*, the *Fair Trading Act 1987 (WA)* and the *Fair Trading Act 2010 (WA)*, if applicable, and to the fullest extent permitted by law.

Any summaries of the legislation, regulations or licence provisions in this document do not contain all material terms of those laws or obligations. No attempt has been made in the summaries, definitions or other material to exhaustively identify and describe the rights, obligations and liabilities of any person under those laws or licence provisions.

A full copy of this document is available from the Economic Regulation Authority website at www.erawa.com.au.

For further information, contact:

Economic Regulation Authority
Perth, Western Australia
Phone: (08) 6557 7900

© Economic Regulation Authority 2012

The copying of this document in whole or part for non-commercial purposes is permitted provided that appropriate acknowledgment is made of the Economic Regulation Authority and the State of Western Australia. Any other copying of this document is not permitted without the express written consent of the Authority.

Contents

1. Introduction	1
1.1 Background and scope of this Issues Paper	1
1.2 How to make a submission	1
2. The process to be followed by the Authority	3
3. Background information on the Ancillary Service Cost_LR parameters	3
4. System Management’s proposed values for the Ancillary Service Cost_LR parameters	4

List of Tables

Table 1	Ancillary Service Cost_LR parameters	4
---------	--------------------------------------	---

1. Introduction

1.1 Background and scope of this Issues Paper

Clause 3.13.3B of the *Wholesale Electricity Market Rules (Market Rules)* requires the Economic Regulation Authority (**Authority**) to determine values for the Ancillary Service Cost_LR parameter for each Review Period.¹ Since the commencement of the Wholesale Electricity Market in WA, the Authority has determined values for the Ancillary Service Cost_LR parameter for two Review Periods. The first Review Period covered the three financial years from 2007/08 to 2009/10 and the second Review Period covered the three financial years from 2010/11 to 2012/13. The determination for the third Review Period will cover the period from 1 July 2013 to 30 June 2016.

Sub clause 3.13.3B(a) of the Market Rules requires System Management to submit a proposal for the Ancillary Service Cost_LR parameter to the Authority by 30 November of the year prior to the start of the Review Period. The Authority received System Management's proposal for the Ancillary Service Cost_LR parameter for the Review Period from 1 July 2013 to 30 June 2016 on 30 November 2012. System Management's submission is available on the Authority's [website](#).²

Sub clause 3.13.3B(b) of the Market Rules states that as part of the process for the determination of the Ancillary Service Cost_LR parameter, the Authority must undertake a public consultation process, which must include publishing an Issues Paper and inviting public submissions.

The Authority has prepared this Issues Paper to assist interested parties in understanding and making submissions on System Management's proposed values for the Ancillary Service Cost_LR parameter for the period from 1 July 2013 to 30 June 2016.

The remainder of this paper addresses the following matters:

- how to make a submission on the proposed Ancillary Service Cost_LR parameter submitted by System Management;
- the process to be followed by the Authority in making determinations on this parameter;
- background information on the Ancillary Service Cost_LR parameter; and
- the proposed values for the Ancillary Service Cost_LR parameter submitted by System Management.

1.2 How to make a submission

A notice has been posted on the Authority's website advising the release of this Issues Paper. This notice invites interested parties to make submissions in print and electronic form (where possible) on the proposed values for the Ancillary Service Cost_LR

¹ A Review Period covers the 3 year period commencing on 1 July in the calendar year following the commencement of the Wholesale Electricity Market in WA (in September 2006).

² See ERA website, Determination of the Ancillary Service Cost_LR parameters – Issues Paper, http://www.erawa.com.au/2/272/42/determination_o.pm

parameter submitted by System Management by **4:00 pm (WST) on Friday, 1 February 2013.**

Submissions should be addressed to:

Determination of the Ancillary Service Cost_LR parameter – Issues Paper

Postal address: PO Box 8469, PERTH BC WA 6849

Office address: Level 4, 469 Wellington Street, PERTH WA 6000

Email address: publicsubmissions@erawa.com.au

Confidentiality

Submissions made to the Authority will be treated as in the public domain and placed on the Authority's website unless confidentiality is claimed. The submission or parts of the submission in relation to which confidentiality is claimed should be clearly marked. Any claim of confidentiality will be dealt with in the same way as is provided for in section 55 of the *Economic Regulation Authority Act 2003*.

The receipt and publication of a submission 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, where the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority in these circumstances.

For further information contact:

General Enquiries

Wana Yang

Assistant Director Markets

Ph: 61 8 6557 7900

Fax: 61 8 6557 7999

Media Enquiries

Richard Taylor

Riley Mathewson Public Relations

Ph: 61 8 9381 2144

Ph: 61 8 9381 3877

2. The process to be followed by the Authority

Under clause 3.13.3B of the Market Rules, the factors that the Authority must take into account in determining values for the Ancillary Service Cost_LR parameter are as follows:

- the Wholesale Market Objectives; and
- the submission received from System Management (proposing the values for the Ancillary Service Cost_LR parameter).

The Authority must undertake a public consultation process in determining the values for the Ancillary Service Cost_LR parameter. When the Authority undertakes public consultation, the Authority is required to publish an Issues Paper and issue an invitation for public submissions.

The Authority intends to follow the process in accordance with the Market Rules in determining the values for the Ancillary Service Cost_LR parameter, with an expected timeline as follows:

- Public consultation on this Issues Paper 18 December 2012 – 1 February 2013
- Publication of the Determination Paper End of March 2013

3. Background information on the Ancillary Service Cost_LR parameter

The underlying principle for determining the Ancillary Service Cost_LR parameter is to ensure the value of the parameter covers the payment to a market generator for the costs of providing the Load Rejection Reserve Service, System Restart Service and Dispatch Support Services, not paid under specific contracts.³

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 can sustain the loss through the interconnected network and the generators providing the Load Following Ancillary Service and Spinning Reserve Ancillary Service, and the Load Rejection Reserve Service generators may not need to be called upon. The Load Rejection Reserve generators are compensated through the Load Rejection Reserve Service (being the “L” component of the Cost_LR parameter).

System Restart 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 three sub-regions for System Restart purposes, thereby requiring a system restart unit in each of the sub-regions. The System Restart Service (being the “R” component of the Cost_LR parameter) is designed to compensate generators providing this service.

³ Dispatch Support Ancillary Services contracted through clause 3.11.8B of the Market Rules.

Values for both the “L” and “R” components of the Cost_LR parameter are expressed in dollars per year, and these values represent the maximum amount the market will be called upon to pay for these Load Rejection Reserve and System Restart Services.

4. System Management’s proposed values for the Ancillary Service Cost_LR parameter

Table 1 shows the values System Management has proposed for the Load Rejection Reserve Ancillary Service (“L” component of the Cost_LR parameter) and for the System Restart Ancillary Service (“R” component of the Cost_LR parameter) for the three financial years from 1 July 2013 to 30 June 2016.

Table 1 Proposed values for Ancillary Service Cost_LR parameter

	2013/14	2014/15	2015/16
Load Rejection Reserve (“L” component)	0	0	0
System Restart (“R” component)	\$508,000	\$521,000	\$534,000

Load Rejection Reserve

Verve Energy currently provides Load Rejection Reserve Ancillary Service as part of its ancillary service obligations under clause 3.11.7A of the Market Rules. In its submission, System Management stated that it had not previously sought an allocation for the L component of the Cost_LR parameter because it did not have information demonstrating that the Load Rejection Reserve Ancillary Service is provided at a particular (unremunerated) cost to any Market Participant. System Management has retained this position and made no change to the allocation of zero value for the L component of the Cost_LR parameter for the period from 1 July 2013 to 30 June 2016.

System Restart

Currently, System Management has separate arrangements with Verve Energy (at Pinjar site) and Western Energy (at Donaldson Road site) for the provision of System Restart Ancillary Service until 30 June 2016.

System Management has an arrangement with Verve Energy for the provision of System Restart Ancillary Service at the Kwinana site until 30 June 2013. System Management noted in its submission that it has sought expressions of interest from parties interested in providing this service, however, to date no expressions of interest have been received. System Management intends to extend the expiring contract with Verve Energy to provide System Restart Ancillary Service at the Kwinana site.

System Management’s proposed values for System Restart Ancillary Services reflect its estimate of these contract costs assuming an escalation rate of 2.25% per annum for the 2013/14 financial year, and 2.5% per annum for the 2014/15 and 2015/16 financial years based on the Consumer Price Index (CPI) forecast in the Federal Government’s 2012/13 Mid Year Economic and Fiscal Outlook. System Management stated that the Federal

Government's CPI forecast was used as the majority of the service prices are escalated using the eight Australian Capital Cities CPI rather than the Perth CPI.

Issue

Submissions are invited from interested parties on the proposed values for the Ancillary Service Cost_LR parameter by System Management.