

31 January 2018

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Dear Rajat

## REVISED SUBMISSION – PROPOSED MARGIN VALUES FOR 2018/19 FINANCIAL YEAR

### BACKGROUND

On 30 November 2017 and 15 December 2017, the Australian Energy Market Operator submitted proposed values for the parameters Margin\_Peak and Margin\_Off-Peak (margin values)<sup>1</sup> for the 2018/19 financial year to the Economic Regulation Authority under clause 3.13.3A(a) of the Wholesale Electricity Market Rules (WEM Rules). On 3 January 2018 the ERA published an issues paper regarding the margin values for the 2018/19 financial year.<sup>2</sup>

### ISSUES

AEMO engaged Jacobs Group (Australia) Pty Ltd to provide an independent assessment of the margin values for the 2018/19 financial year. Jacobs provided a confidential version and a public version of its report.

In response to the ERA's recommendation in its 2017/18 margin values determination,<sup>3</sup> AEMO also engaged Jacobs to provide a sensitivity analysis on the margin values modelling process by mid-January 2018. When doing the sensitivity analysis, Jacobs discovered that an assumption relating to the fuel constraints and prices for Synergy (as outlined in the confidential version of the report) was not modelled correctly. The scope of this issue was limited to two Synergy facilities, but resulted in an availability cost that was higher than it should have been. Due to the confidential nature of the assumption, greater detail on this issue is outlined in Appendix 1 to this letter.

In addition, Jacobs identified an error in the spreadsheet used to calculate the availability cost. The calculation of availability cost is defined in section 2.3 of the public version of the report and requires "the modelled system marginal price for dispatch, with reserve provision." Jacobs used the incorrect Balancing Price when calculating the availability cost in one reserve scenario. This resulted in an availability cost that was \$0.16M higher than it should have been.

Jacobs has corrected the errors in the model, re-run the required simulations and updated the confidential and public versions of the report, which are **attached** for your consideration.

Whilst AEMO has taken all care to ensure any confidential information has been removed from the public report, AEMO recommends that the ERA performs its own checks to ensure that any report it publishes does not contain any confidential information.

<sup>1</sup> The margin values review process is outlined in clause 3.13.3A of the Market Rules.

<sup>2</sup> ERA, 2018, *Spinning Reserve Ancillary Service: Margin Values for the 2018-19 Financial Year – Issues Paper*, <https://www.erawa.com.au/cproot/18585/2/2018-19%20Margin%20values%20issues%20paper.PDF>.

<sup>3</sup> ERA, 2017, *Determination of the Ancillary Service Margin Peak and Margin Off-Peak Parameters for the 2017/18 Financial Year*, paragraph 41, <https://www.erawa.com.au/cproot/17550/2/201718%20determination%20of%20Margin%20peak%20and%20Margin%20Off-Peak%20parameters.pdf>.

## REVISED SUBMISSION

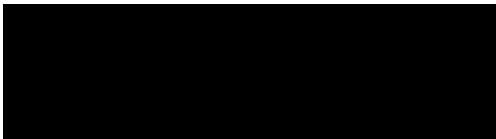
AEMO proposes the following revised margin values for the 2018/19 financial year based on the recommendations in Jacobs' updated report:

Margin values	Proposed (2018–19)		Approved (2017–18)	
	Peak	Off-Peak	Peak	Off-Peak
<b>Margin (%)</b>	28%	38%	36%	64%
<b>Average Annual Spinning Reserve Capacity (MW)</b>	228.4	194.4	221.8	190.2
<b>Modelled Balancing Price (\$/MWh)</b>	55.16	41.89	56.27	39.56
<b>Total Annual Availability Cost (\$M)</b>	10.15		13.29	

A discussion of the key drivers for the changes in margin values is presented in Jacobs' updated report.

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

Yours sincerely



Martin Maticka  
**Group Manager, WA Markets**

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