

9 March 2018

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Dear Rajat

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

BACKGROUND

The Australian Energy Market Operator engaged Jacobs Group (Australia) Pty Ltd to provide an independent assessment of the Margin_Peak and Margin_Off-Peak parameters (margin values¹) to apply for the 2018/19 financial year. On 30 November 2017 and 15 December 2017 AEMO submitted a 2018/19 margin values proposal to the Economic Regulation Authority.

On 31 January 2018 AEMO submitted a revised 2018/19 margin values proposal to the ERA. This revised proposal was required to correct two modelling errors identified by Jacobs². Since this revised submission, Jacobs has identified a further modelling error. Consequently, a further revised 2018/19 margin values proposal is required.

ISSUES

When Jacobs re-ran the model in January 2018 to correct the two issues previously identified by Jacobs, the availability of facilities providing Spinning Reserve was not correctly configured to reflect the assumptions in the report. Specifically, Section 9.4 of the report states:

Spinning Reserve contracts to be modelled include the provision of 42 MW of interruptible load from a long-term contract. One short-term contract is for an additional 13 MW of interruptible load, and the other is a contract with an IPP.

The model did not correctly reflect the contract with the Independent Power Producer (Bluewaters³) who were configured to be available for more Spinning Reserve than their 13 MW short-term contract.

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

REVISED SUBMISSION

AEMO proposes the following revised margin values for the 2018/19 financial year based on the recommendations in Jacobs' updated report dated 9 March 2018:

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

² Please refer to AEMO's letter dated 31 January 2018 for more details on these issues.

³ As per the "Ancillary Services Report 2017/18" published here: <https://www.aemo.com.au/Electricity/Wholesale-Electricity-Market-WEM/Data/System-Management-reports>.

Margin values	Proposed (2018–19)		Approved (2017–18)	
	Peak	Off-Peak	Peak	Off-Peak
Margin (%)	34%	71%	36%	64%
Average Annual Spinning Reserve Capacity (MW)	224.1	189.0	221.8	190.2
Modelled Balancing Price (\$/MWh)	54.44	39.52	56.27	39.56
Total Annual Availability Cost (\$M)	13.15		13.29	

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

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.

INDEPENDENT VERIFICATION

Given the confidential nature of the errors identified, Market Participants requested AEMO provide additional assurance regarding the modelling analysis in the margin values proposal. In response to this feedback, AEMO has engaged an independent third party, AEMO's market auditor Robinson Bowmaker Paul, to review the margin values model and:

- confirm that the errors identified (as outlined above and in AEMO's letter dated 31 January 2018) have been addressed; and
- comment on any material impacts of these errors in relation to previous years.

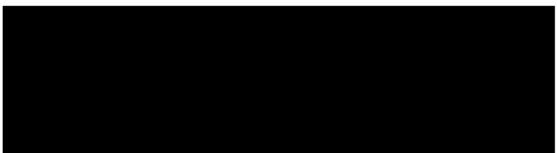
RBP has now concluded its review and provided the **attached** letter of verification.

In addition, RBP have noted the complex nature of the market modelling required in the margin values and the importance of verification and control processes. RBP have noted that the responsible consultant is best placed to suggest process improvements and have recommended a comprehensive review of these processes to reduce the risk of errors occurring.

AEMO will ensure that a comprehensive review of the verification and control processes is undertaken with the consultant engaged for the 2019/20 margin values. AEMO will ensure the process improvements are implemented and outlined in the next 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