

Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_06 Application of Spinning Reserve to Aggregated Facilities

Submitted by

Name:	Ky Cao
Phone:	08 9420 0300
Fax:	08 9474 9900
Email:	k.cao@perthenergy.com.au
Organisation:	Perth Energy
Address:	Unit 3, 77 Mill Point Road, South Perth WA 6151
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Submission

- Please provide your views on the proposal, including any objections or suggested revisions.**

Background

Currently, the Market Rules allocate the costs of providing the ancillary service of spinning reserve to all generators. The largest generators on the system are allocated a larger share of the cost, on a per MW basis, compared to smaller generators. This methodology applies at the Facility level. Therefore, a Facility that consists of two or more aggregated units is likely to be subject to a higher per MW allocation of spinning reserve costs than would be the case if the units were registered as separate Facilities.

Change Proposal

Griffin Energy has proposed to change the Market Rules to ensure that the cost of spinning reserve provision is allocated across generators based on the size of the individual generation units within each Market Participant's portfolio. Specifically, Griffin Energy proposes that for the purpose of calculating the spinning reserve cost allocation, aggregated Facilities should be treated as if each of the units making up the aggregated Facility were registered as separate, stand alone Facilities.

Perth Energy's Views

Perth Energy supports Griffin Energy's rule change proposal. In assessing how much spinning reserve to provide for the system it has been the norm to ensure that there is sufficient reserve in place to cover the sudden loss of the largest generation unit synchronised to the system at any point. This measure has traditionally been linked to the single 330MW generation unit at Verve Energy's Collie Power Station. To minimise the costs to the system of holding spinning reserve the Collie unit has traditionally not been run at maximum load at times of low load on the system.

Unless there is critical common infrastructure in place which would cause all units of a multi-unit power station to fail at the same time, Perth Energy considers it would be most efficient for the market to plan spinning reserve requirements around the size of individual units, rather than the size of aggregated Facilities, where those Facilities consist of two or more stand alone, independent generation units. If spinning reserve is planned for and provided for on this basis it would also be most equitable to reflect this principle in allocating the cost of spinning reserve and implement Griffin Energy's proposed change to the Market Rules.

Perth Energy notes that a causer pays principle is used to allocate generator spinning reserve costs. The various levels of spinning reserve costs are meant to roughly approximate the increased cost burdens that an increase in the MW size of the generator imposes on the system. Under these arrangements, the larger the generating unit, the greater the spinning reserve paid. However, we also note that generation units smaller than 10MW are currently exempt from funding spinning reserve costs. We have concerns that this is not equitable within the market and does not reflect the overarching principle of causer pays. With the increasing uptake of distributed generation and other small scale generation technologies we view it as timely to reassess whether this exemption threshold should be removed to ensure that all generators on the system that may give rise to the need to utilise spinning reserve are charged appropriately for the service.

Perth Energy also questions whether the provision of spinning reserve is truly a variable-only cost. We view that a detailed assessment of the cost structure of providing these services would indicate the existence of some up front fixed costs. The existence of this cost structure lends the payment of ancillary services to a 2-part pricing methodology, containing a fixed and variable component.

As a result of the above matters, we see that an alternative to the current methodology could be to charge **all** generation units for spinning reserve, with a fixed fee component to cover non-size related costs and a \$/MW variable component to cover the variable costs of providing spinning reserve. As with the current methodology it may be necessary to have multiple \$/MW charge rates to cover the varying cost structures associated with providing spinning reserve for a 200MW unit vs for example a 10MW unit.

We see these additional matters raised as complementing the Griffin Energy Rule Change Proposal.

Finally, Perth Energy notes that in progressing this Rule Change Proposal it may also be necessary to amend the text of the current Clause 3.9.2(a) of the Market Rules to clarify that that spinning reserve is the service of holding capacity in reserve to be able to respond appropriately to retard frequency drops following the failure of one or more generation units rather than Registered Facilities.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Perth Energy considers the change would better facilitate the achievement of Market Objectives¹ (a), (c) and (d). Perth Energy considers the most significant positive impact would be on Market Objectives (a) and (d) as the change (with the additional proposed changes to 3.9.2(a)) would remove the need to hold unnecessary spinning reserve relating to reserve that is held for large Facilities comprising of several smaller, separate generation units. The proposed change would also remove any discrimination that may occur at present with reference to multi unit Facilities.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

There will be no impact for Perth Energy.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Perth Energy does not require any lead time to implement the change.

¹ The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.