



Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2013_06 Exclusion of LFAS Quantities from Daily Ancillary Service Files

Submitted by

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Submission

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

Background

On 1 July 2012 the Market Rules were amended to allow for a competitive Balancing and Load Following market in the Wholesale Electricity Market (WEM). Prior to this change, Verve Energy was the sole provider of a number of ancillary services, including the Load Following Ancillary Service (LFAS). With the amendments introduced on 1 July 2012 other Market Generators can compete to provide LFAS.

Clause 7.2.3A of the Market Rules require System Management to estimate for each Trading Interval the amount of energy (MWh) that could potentially be called upon for each Market Participant providing ancillary services. This estimate currently includes any energy that may be required to provide the LFAS service. System Management's estimate is communicated to the Independent Market Operator (IMO) and is used by the IMO to calculate the Maximum Supply Capability for each Market Participant under clause 6.3A.2. Each Market Participant's Maximum Supply Capability is reduced by an amount equivalent to System Management's estimate of the potential energy required for ancillary services.

The Maximum Supply Capability sets an upper limit for each Market Participant's ability to bid into the Short Term Energy Market (STEM)

Issue

The IMO has identified that with the introduction of the competitive LFAS market on 1 July, it is no longer appropriate to exclude energy that may potentially be called upon to provide LFAS from Market Participant's Maximum Supply Capability. This is due to the fact that LFAS may now be provided by parties other than Verve Energy via a competitive auction process. It is impossible for System Management ahead of time to accurately predict the outcome of the auction and therefore to predict which Facilities and Market Participants will be scheduled to provide the LFAS service.

System Management may therefore include the full potential LFAS capacity of each Facility when making its estimate under clause 7.2.3A. This would lead to a significantly larger total amount of energy being excluded from participation in the STEM than is necessary.

Change Proposal

The IMO submitted Rule Change Proposal 2013 06 "Exclusion of LFAS Quantities from Daily Ancillary Service Files" on 27 March 2013.

The IMO proposed to amend the wording of clause 7.2.3A so that System Management must exclude estimates relating to the provision of LFAS when determining the estimate of energy required for ancillary services from each Market Participant. The IMO's proposed amendments are as follows (deleted words ~~struck through~~ and added words underlined):

- 7.2.3A. By 8:30 AM on the Scheduling Day, System Management must determine for each Market Participant that is a provider of Ancillary Services (excluding LFAS):
- (a) an estimate of the Loss Factor adjusted MWh of energy that could potentially be called upon by System Management after 1:00 PM on the Scheduling Day to meet Ancillary Service Rrequirements (excluding LFAS) for each Trading Interval of the Trading Day where these estimates must reflect the Ancillary Service standards described in clause 3.10; and
 - (b) a list of Facilities that it might reasonably expect to call upon to provide the energy described in clause 7.2.3A(a).

The IMO has submitted RC_2013_06 to the Fast Track rule change process with the rationale being that the defect that is being addressed can be classified as a manifest error

Perth Energy's Views

Perth Energy supports the proposed changes to remove the LFAS volumes from System Management's reporting of ancillary services volumes to the IMO under clause 7.2.3A.

Perth Energy considers that the current wording of clause 7.2.3A could lead to significant volumes of energy being unnecessarily withheld from participation in the STEM. This is due to the interaction between setting each Market Participant's Maximum Supply Capability and System Management's forecast of each Market Participant's potential provision of LFAS. Due to the recent reforms to the LFAS market it is no longer possible for System Management to exactly predict which Facilities will be selected for LFAS provision as selection now depends on the outcome of a competitive bidding process.

Unnecessarily withholding energy from participation in the STEM will have detrimental impacts on individual generators through lost opportunity and profits as well as on the competitive tension in the STEM. In addition, economic efficiency is likely to suffer as less efficient generators may be selected in the STEM ahead of more efficient generators that are excluded due to being forecast as potentially providing LFAS services. The sub optimal economic outcome flowing from the combination of lessened generation competition and inefficient dispatch optimisation is likely to lead to higher long term costs to end users than would otherwise be the case.

Perth Energy believes that generators are best placed to determine the optimum contracting strategy for their Facilities. This may include to contract bilaterally, via the STEM, schedule in the Balancing Market or provide ancillary services such as LFAS. Generators that wish to participate in the LFAS market will either position themselves to do so by bidding in at higher prices in the STEM or only bid into the LFAS market as a "second option" if not selected in the STEM.

In relation to the proposed amendments to clause 7.2.3A Perth Energy queries the need for brackets around "excluding LFAS". Brackets normally contain information that is not essential to the meaning of the sentence but provide additional information. In this instance, the information contained in the brackets is essential.

Perth Energy suggests rewording slightly by using commas instead of brackets as follows:

- 7.2.3A. By 8:30 AM on the Scheduling Day, System Management must determine for each Market Participant that is a provider of Ancillary Services, excluding those who only provide LFAS:
- (a) an estimate of the Loss Factor adjusted MWh of energy that could potentially be called upon by System Management after 1:00 PM on the Scheduling Day to meet Ancillary Service Rrequirements, excluding LFAS, for each Trading Interval of the Trading Day where these estimates must reflect the Ancillary Service standards described in clause 3.10; and
 - (b) a list of Facilities that it might reasonably expect to call upon to provide the energy described in clause 7.2.3A(a).

Perth Energy agrees with the IMO's assessment that this Rule Change Proposal should be subject to the Fast Track process.

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

For the reasons set out above, Perth Energy considers that the proposed changes will facilitate competition in generation and facilitate the use of the most efficient dispatch schedule in the STEM. This is likely to directly positively impact on the achievement of Market Objectives (a) and (b)¹. Achievement of Market Objective (d) is also likely to be positively influenced as increased competition in generation and availability of the most efficient units for dispatch in the STEM is likely to result in lower prices than would otherwise be the case.

Perth Energy has not identified any impacts on the other Market Objectives.

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.

Perth Energy has not identified any impacts to our business.

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

Perth Energy will not require any lead time to implement the proposed changes.

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.