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Rule Change Panel  
Submission by email: [support@rcpwa.com.au](mailto:support@rcpwa.com.au)

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Dear RCP

## **RESPONSE TO CALL FOR SUBMISSIONS: FULL RUNWAY ALLOCATION OF SPINNING RESERVE COSTS (RC 2018 06)**

Bluewaters welcomes the opportunity to provide comments on the above Rule Change paper (Paper). Bluewaters notes the efforts of the Public Utilities Office (PUO) in submitting the Rule Change Proposal during a period of high workload for the PUO.

Bluewaters previously raised concern with the existing Block Allocation Method for Spinning Reserve (SR) Costs in March 2014 via a Pre Rule Change Proposal<sup>1</sup> presented to the Market Advisory Committee (MAC). At that point the Full Runway Method was first discussed<sup>2</sup> however progression of the Rule Change was ceased due to an understanding that it would be captured within the market reform process which was ongoing at the time. This did not occur. As a consequence, the Wholesale Electricity Market (WEM) failed to capture the anticipated benefits over the intervening years that were identified in Bluewaters proposal. The high priority given to the current Paper will ensure that the benefits of the rule change are realised with limited further delay.

### **Feedback**

#### 1. Concern with existing market rules

Bluewaters agrees with the PUO assessment that the existing "Modified Runway" method can be improved to provide better cost reflectivity for the allocation of Spinning Reserve Costs. An outcome of the existing method, which applies the cost of SR as an average across all generators in that block, is to create step changes in the SRMC of an incremental MW of generation when moving between blocks.

Bluewaters has been directly impacted by this consequence. Both of its generators' 217MW of capacity is being economically capped at 200MW due to the SR cost applied to the last 17MW potentially being above the market price cap<sup>3</sup>. This generation would otherwise be available to the market at a SRMC reflecting baseload generation.

The SWIS has 5 generators with capacity that sits just above 200MW (Bluewaters 1, Bluewaters 2, Muja G7, Muja G8, Cockburn). The capacity above 200MW of these units is effectively treated as "peaking capacity" as a result of incurring the fixed share of Block 1 SR Costs. With the proposed change to the more granular Full Runway method, this generation should return to being offered to the market at a "baseload" SRMC, reducing Wholesale Market Prices.

#### 2. Reason for degree of urgency

Bluewaters believes that the inefficiencies identified above and their impact on the Wholesale Market Prices supports the High urgency rating.

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<sup>1</sup> <https://www.erawa.com.au/cproot/15302/2/MAC%20Meeting%2069%20Papers.pdf>

<sup>2</sup> <https://www.erawa.com.au/cproot/15303/2/MAC%20Meeting%20No.%2071%20Minutes.pdf>

<sup>3</sup> It is poor market design if there exists the potential for the economic cost of production to exceed a hard price cap where the generator is unable to determine in advance if that scenario will materialise.

### 3. Market Rule changes

The drafting amendments to Appendix 2 of the Market Rules as presented in the Paper appear to accurately implement the concept of the Full Runway Method and no charges are proposed by Bluewaters based on its review.

### 4. Wholesale Market Objectives

Bluewaters supports the PUO assessment on the benefits to the Wholesale Market Objectives which are in line with the benefits originally identified in the 2014 Pre Rule Change Proposal presented by Bluewaters. Benefits to meeting the Market Rule Objectives come from.

- a) Increasing the volume of lower cost energy to the market promoting efficiency and competition
- b) Lowering Wholesale Market prices
- c)

### 5. Identifiable costs and benefits

While the change in operator's behaviour is difficult to model, analysis of the Balancing Merit Order performed by Bluewaters indicates a reduction in average Balancing prices of 3% to 5%. This will deliver a reduction in the long term cost of electricity supplied to customers.

Should you have any questions regarding this submission please contact Daniel Kurz on 08 9261 2892 or [daniel.kurz@bluewatersps.com.au](mailto:daniel.kurz@bluewatersps.com.au).

Yours sincerely



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