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Dear Martin

ANCILLARY SERVICES PARAMETERS – DRAFT ASSUMPTIONS REPORT

Thank you for the opportunity to provide feedback on proposed methods and underlying assumptions for calculating the ancillary services parameters required to determine the regulated prices Synergy receives as the default provider for load rejection, system restart and spinning reserve services.

1. Calculation of Load rejection Reserve Services Costs

In contrast to the report, Synergy considers that constrained on payments do not cover the costs of facilities dispatched out of merit to provide Load Rejection Reserve Services (LRRS) and therefore, that these costs should be accounted in AEMO's calculation method.

The constrained on payment mechanism does not cover these costs because constrained on payments for Synergy apply on a portfolio rather than facility basis. For example, while certain facilities within Synergy's generation portfolio may be dispatched out of merit to provide LRRS, others would likely be constrained off; such that the total output of Synergy's portfolio would not diverge from Synergy's clearing volume and Synergy would not qualify for constrained on payments.

Even in the rare instance that Synergy's total dispatched capacity is higher than Synergy's clearing volume and Synergy qualifies for constrained on payments, these payments are unlikely to cover the costs of the facility being dispatched out of merit. This is because constrained on payments are derived from the Price-Quantity Pair with a price 'higher than but closest to the Balancing Price', which is likely to represent a lower cost generator than that actually dispatched out of merit.

The WEM rules state that AEMO's monthly ancillary service settlement must comprise the 'monthly amount for LRRS' and this amount 'must cover the costs for providing the LRRS'. Without any existing mechanism to compensate Synergy for its facilities being dispatched out of merit to provide LRRS, Synergy considers that this cost should be accounted in AEMO's calculations.

Synergy notes that, in contrast to the proposed method, the previous calculation method did incorporate this cost as it compared total generation costs with and without provision of various ancillary services including LRRS and used this analysis to calculate the appropriate prices for these services.

It is not obvious that, even if the constraint payment mechanism could be modified to facilitate recovery of LRRS costs by Synergy, that doing so would be in any way better than recovery of those costs through the ancillary services settlement mechanism.

If left unaddressed, Synergy anticipates under-compensation for LRRS would be exacerbated by WA's growing level of wind and distributed solar which is likely to cause more instances where demand is low, baseload generators are operating close to or at their minimum stable operating levels and out of merit generation is required to provide LRRS.

2. Synergy comments on proposed modelling method

2.1 Modelling of Unit Commitment

Synergy considers that unit commitment decisions and the costs associated with them are key factors in determining the cost of providing ancillary services. This relationship is more pronounced in a small, isolated system such as the SWIS, where facilities' minimum stable operating levels are material relative to the system load available for scheduled generation.

When deciding which facilities to commit, generation businesses will take a forward view of load forecasts over a number of days. To reflect this, Synergy considers the modelling method should also take a forward view of 2-4 days for facility commitment. Synergy notes that the review method has previously incorporated full integer unit commitment modelling, co-optimised for provision of all ancillary services.

2.2 Reliance on historical Balancing Merit Order profiles

Synergy is concerned by the extent to which the proposed modelling method implicitly assumes that future balancing merit order profiles will reflect past profiles. Synergy considers this assumption cannot be justified given that changes in key variables including fuel costs, output from distributed solar and new large scale renewable generators have had significant impacts on patterns of plant commitment in the past and will continue to do so in the future. Synergy considers that accounting for these variables through simplified adjustments to historical balancing offers and future load forecasts will not capture their impacts on how ancillary service requirements are met in the future and at what costs.

Once again, thank you for the opportunity to provide feedback. Synergy would be pleased to elaborate on the points raised above if required.

Yours sincerely,



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