

ELECTRICITY INDUSTRY ACT

ELECTRICITY INDUSTRY (WHOLESALE ELECTRICITY
MARKET) REGULATIONS 2004

WHOLESALE ELECTRICITY MARKET RULES

Power System Operation Procedure:
Ancillary Services

Commencement: This Market Procedure is to have effect from 8:00am (WST) on the same date as the Wholesale Electricity Market Rule, in which this procedure is made in accordance with, commences.

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1. ANCILLARY SERVICES

This Ancillary Services Procedure sets out the processes that must be followed each year by System Management, Participants and Ancillary Service Providers in assessing and identifying Ancillary Service Requirements and as part of the Ancillary Services procurement process.

2. RELATIONSHIP WITH MARKET RULES

1. This Procedure has been developed in accordance with, and should be read in conjunction with, clauses 3.9 - 3.11 and 3.13 of the Wholesale Electricity Market (**WEM**) Rules (**Market Rules**).
2. References to particular Market Rules within the Procedure in bold and square brackets [**MR XX**] are current as at 1 October 2008. These references are included for convenience only, and are not part of this procedure.
3. In performing its functions under the Market Rules, System Management may be required to disclose certain information to Market Participants and Network Operators. In choosing the information which may be disclosed, System Management will utilise best endeavours and act in good faith to disclose only the information reasonably required by the application of the Market Rules.

3. SCOPE

This Procedure documents the processes as defined in the Market Rules [**MR 3.11.4**]:

- a. determining Ancillary Service Requirements;
- b. preparing Ancillary Service Performance Reports; and
- c. entering into Ancillary Service Contracts, including the process for conducting competitive tender processes for the awarding of such contracts.

4. ASSOCIATED PROCEDURES AND OPERATING STANDARDS

- a. SWIS Technical Rules and Operating Standards (Technical Rules)
- b. Power System Operation Procedure – Dispatch
- c. Power System Operation Procedure – EGC Dispatch
- d. Power System Operation Procedure – Power System Security
- e. Power System Operation Procedure – System Restart Overview

5. DESCRIPTION OF ANCILLARY SERVICES

The definitions for each of the Ancillary Services are specified in the Market Rules [**MR 3.9**].

6. DETERMINATION OF ANCILLARY SERVICE REQUIREMENTS

The process that System Management must follow to determine the Ancillary Service Requirements is specified in the Market Rules **[MR 3.11]**.

The Ancillary Service Requirements must be determined and set out each year in a report System Management submits to the IMO. The report must specify the quantity, total cost of each category, Ancillary Service Requirements, and information on the budget approved of each Ancillary Service expected to be needed to meet the Ancillary Service Standards in the trading periods and situations anticipated in accordance with the Market Rules.

The report will cover the financial year commencing on 1 July and finishing on 30 June of the year following.

6.1 Information used in the determination of Ancillary Service Requirements

1. System Management must determine the Ancillary Service Requirements in order to meet particular standards and requirements in accordance with the Market Rules **[MR 3.11.1]**.
2. System Management shall use the following information in its determination of Ancillary Service Requirements:
 - a. Medium Term PASA studies;
 - b. Equipment Limits and Security Limit information received by System Management from the IMO or Participants; and
 - c. any other information that System Management considers relevant to the determination.
3. System Management may seek further information from Participants and Ancillary Service Providers in order to complete its determination of Ancillary Service Requirements where this information is relevant to the assessment.
4. Participants and Ancillary Service Providers must make every reasonable endeavour to provide this information to System Management in the form requested, and as soon as practical.

6.2 Scope of Analysis of Ancillary Service Requirements

1. In its analysis of Ancillary Service Requirements, System Management must have regard to the conditions and situations applying during the year, including:
 - a. the commissioning or decommissioning of new facilities;
 - b. the performance of facilities that give rise to the need for additional Ancillary Services;
 - c. the risk associated with non-availability or non-performance of Ancillary Service sources;
 - d. the variability and predictability of demand on the SWIS; and
 - e. any other factor System Management reasonably considers necessary.

2. Other factors that System Management must have regard to are defined in the Market Rules **[MR 3.11.5]**.
3. System Management must set out in the Ancillary Service Requirements report submitted to the IMO the assumptions and circumstances that were relevant to System Management's determination of quantities.
4. System Management must submit its Ancillary Services Requirements to the IMO as part of the Ancillary Services Performance Report by 1 June each year in accordance with the Market rules **[MR 3.11.11]**.
5. The requirements that must be followed by the IMO and System Management when auditing the Ancillary Service Requirements are defined in the Market Rules **[MR 3.11.6]**.
6. The IMO audit must be a consultative process aimed at ensuring that an outcome suitable to the IMO and System Management is obtained as soon as practical after the Ancillary Service Requirements have been made available for audit.
7. Where System Management is required to amend the Ancillary Services Requirements, this should be carried out as soon as practical and resubmitted to the IMO.
8. In requiring System Management to amend the Ancillary Services Requirements, or any other part of the Ancillary Service Performance Report, the IMO must recognise and have due regard to commitments already made by System Management through the detailed contract discussions it has had with prospective new Ancillary Service Providers, as well as contracts it may have entered into.

6.3 Preparation and Approval of Ancillary Service Procurement Plan

1. System Management must prepare an Ancillary Service Procurement Plan setting out how it proposes to meet the Ancillary Service Requirements for the forthcoming financial year and submit it to the IMO alongside the Ancillary Services Performance Report **[MR 3.11.7 and MR 3.11.11]**.
2. In addition to the information specified in the Market Rules **[MR 3.11.7]** the Ancillary Services Procurement plan must set out for each Ancillary Service, to the extent that this information is not confidential:
 - a. the net quantity of Ancillary Services needing to be procured from EGC and any other contract sources;
 - b. the results of any "Expression of Interest" process undertaken; and
 - c. the results of any competitive tender process undertaken as a consequence of the Expression of Interest.
3. The requirements that the IMO and System Management must follow to review and approve the Ancillary Services Procurement Plan are specified in the Market Rules **[MR 3.11.12]**.
4. The IMO must consult with System Management before requiring any amendment to the Ancillary Services Procurement Plan and must do so in

sufficient time to allow approval of the plan to be obtained within the time specified in the Market Rules **[MR 3.11.13]**.

6.4 Reassessment of Ancillary Service Requirements

1. During the period over which the Ancillary Service Requirements apply, System Management must monitor the conditions giving rise to its determination.
2. The Market Rules provide for the circumstances in which System Management may reassess the level of Ancillary Service Requirements during the year in accordance with the Market Rules **[MR 3.11.3]**.
3. Where System Management considers that changes to circumstances are significant and in System Management's view may give rise to adverse effects on Power System Security or Power System Reliability, System Management must prepare a report to the IMO setting out the circumstances and making a recommendation to revise the Ancillary Service Requirements.
4. System Management may recommend to the IMO one or more actions to improve the situation described in section 6.3.3 of this Procedure, examples of which are:
 - a. contracting or arranging additional Ancillary Service;
 - b. operating with reduced security levels; and
 - c. restricting the actions of a Participant or Participant's Facility that might be giving rise to the increased need for Ancillary Services.
5. The IMO must consider and respond to System Management's proposal for corrective action as soon as practical. Any proposed amendment by the IMO to System Management's recommendation must be agreed with System Management.
6. System Management must undertake the agreed course of action as soon as practical after it is approved by the IMO.

7. ANCILLARY SERVICE PROCUREMENT PROCESS

7.1 Procurement Process

1. System Management must procure Ancillary Services where it considers that it:
 - a. cannot meet the Ancillary Service Requirements through utilising Electricity Generation Corporation facilities and contracted facilities; or
 - b. can obtain a less expensive alternative to Ancillary Services provided by the Electricity Generation Corporation.
2. Each year, System Management must consider whether section 7.1.1(b) of this Procedure applies and include its views within the Ancillary Services Performance Report, prepared pursuant to the Market Rules **[MR 3.11.11]**.

3. System Management must give consideration to using a competitive tender process for the procurement, if System Management considers that doing so would minimise the cost of meeting the Ancillary Service Requirements.
4. Where System Management determines to use a competitive tender process, the following phases will apply:
 - a. the issuing of an Expression of Interest;
 - b. the calling of competitive tenders (if required);
 - c. the assessment of tenders according to the criteria in the Market Rules and as published during the procurement process; and
 - d. the formalising of the necessary contracts and agreements.
5. System Management may vary or otherwise not proceed with any of the phases of the competitive tender process where System Management considers that adherence to the phases of the competitive tender process would not seek to minimise the cost of meeting the Ancillary Service Requirements.

7.2 Expression of Interest

1. Where System Management determines to use a competitive tender process, it must first issue a request for an Expression of Interest for the supply of the relevant Ancillary Service.
2. The request must be published on System Management's website, and in any other form that System Management considers advisable.
3. System Management must provide the necessary consultation and assistance where requested by respondents to assess the capability of their facilities to meet the technical specification.
4. System Management must determine from the responses to the request for Expression of Interest whether there is sufficient interest to proceed with a competitive tender. In making this determination, System Management must give due weight to:
 - a. the likelihood of the respondents meeting the technical requirements of the Ancillary Services;
 - b. the need to minimise the cost of procuring the necessary Ancillary Service Requirements and meet the commercial criteria which the tendered services will be subject to; and
 - c. whether sufficient Ancillary Services will be available from Electricity Generation Corporation and other contracted sources.
5. System Management must complete its evaluation of the responses to the Expression of Interest within a reasonable period of time.
6. System Management will prepare a short-list of parties to be invited to compete in the subsequent competitive tender, based on responses received in the Expression of Interest process.

7. System Management may publish a notice advising of its conclusion on whether to proceed with a competitive tender process following the completion of its evaluations.

7.3 Competitive Tenders

1. If a decision is made to continue with a competitive tender process, System Management must issue a request for tenders at the earliest practical date following the evaluation of responses received in the Expression of Interest process.
2. The request for tenders for the supply of one or more Ancillary Services should be provided by letter and electronic form to parties who have been short-listed during the Expression of Interest process
3. The request for tenders must be accompanied by:
 - a. a template contract covering the Ancillary Services for which tenders are sought; and
 - b. a description of the tender assessment criteria.
4. System Management shall establish and review from time to time internal processes governing the competitive tender process.

7.4 Assessment criteria

1. System Management should apply transparent criteria when evaluating a tender for supply of an Ancillary Service. To be acceptable, the minimum requirements of a proposal are that it should meet the technical requirements set out in the standard form Ancillary Service Supply Contract and the requirements specified in the Market Rules **[MR 3.11.8 and MR 3.11.8A]**.
2. The factors listed above are not exclusive, and System Management may take into account any other factor consistent with the objectives of the Market Rules.
3. System Management must document the results of its evaluations, including the reasons for accepting or rejecting each contract proposal.

8 ANCILLARY SERVICES CONTRACTS

8.1 Contracts for the Supply of Ancillary Services

1. System Management must prepare standard form contracts to be used for situations where System Management contracts to purchase Ancillary Services.
2. The contract should set out the following, as a minimum:
 - a. a technical description of the applicable Ancillary Service;
 - b. the performance requirements of the Ancillary Service;
 - c. testing of performance and compliance of the service;
 - d. the facilities from which each service will be provided;

- e. the process by which Ancillary Services will be made available;
- f. the process by which Ancillary Services will be dispatched;
- g. the post-event information both parties must provide;
- h. the prices and payment structure;
- i. information disclosure;
- j. commercial terms and conditions; and
- k. a mechanism for resolution of disputes.

8.2 Contracts for the Supply of Spinning Reserve and Load Following Ancillary Services

1. In addition to the requirements in the Market Rules, Ancillary Service Providers other than the Electricity Generation Corporation who wish to provide Load Following and Spinning Reserve Ancillary Services to the SWIS market must enter into a contract with System Management covering those services. The contract will cover all commercial and technical matters relevant to the supply, and be consistent with Market Rules and this Procedure.
2. The requirements that System Management must follow where an Ancillary Service Contract has been entered into are specified in the Market Rules **[MR 3.11.10]**.
3. The commercial terms under which EGC is obliged to supply Load Following and Spinning Reserve Ancillary Services are set out in the Market Rules.

8.3 Provision of Ancillary Services without a contract

1. Under a Normal Operating State all Ancillary Services required by the SWIS will be provided either by EGC Facilities as an obligation under the Market Rules or by other facilities under a separate Ancillary Service contract.
2. Under an Emergency Operating State as defined within the Market Rules **[MR 3.4 and MR 3.5]** and in the Power System Operation Procedure – Power System Security, System Management may direct a Market Generator to provide Ancillary Services to the extent necessary to return to a High Risk Operating State or Normal Operating State where that facility is physically capable of providing such services, regardless of whether that Facility has an Ancillary Service contract.