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Cameron Parrotte
General Manager System Management
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Dear Cameron

2013 ANCILLARY SERVICE REPORT

Thank you for the 2013 Ancillary Service Report and Ancillary Service Plan for 2013/14. This is to advise that the IMO has approved the amended report provided on 26 June 2013. The approved report, along with this letter, will be published on the Market Web Site today (1 July 2013).

The IMO has conducted an audit of the report and plan in accordance with clause 3.11.12 of the Wholesale Electricity Market Rules (Market Rules). The IMO identified the following significant concerns with the report, which it has discussed previously with System Management.

- The report provides no information about the extent to which the enabled Load Following Service (LFAS) quantities were actually used to maintain system frequency over the preceding year. As a result, the IMO has insufficient information to assess whether the proposed LFAS Requirement of +/-72 MW (or the increased requirement to support some Commissioning Tests of up to +/-232 MW) is appropriate, excessive or insufficient. This is of particular concern given the high cost of LFAS to Market Participants.
- The historical frequency performance statistics for LFAS in section 2.1 of the report are extremely high, with the system frequency falling between 49.80 Hz and 50.20 Hz for at least 99.96% of each month. This performance level is well in excess of both the level prescribed in the Technical Rules (99.0%) and the higher level proposed by System Management in the report (99.9%). These historical performance levels indicate that the proposed LFAS requirement may be unnecessarily high.
- The report fails to meet the obligation on System Management under clause 3.11.11(a) to provide information on the quantities of Load Rejection Reserve Service provided in the preceding year. The IMO notes that System Management has confirmed this information is not available as it is not currently recorded for historical analysis.

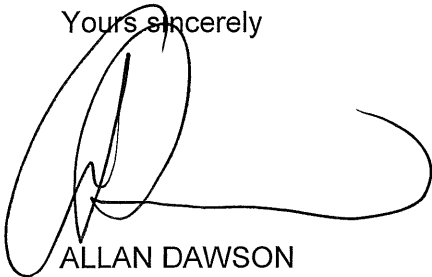
The IMO also notes it has sought policy guidance from the Public Utilities Office (PUO) on the discrepancy between the operating standard for LFAS applied by System Management (to maintain system frequency between 49.80 Hz and 50.20 Hz for at least 99.9% of the time) and the standard prescribed in the Technical Rules (to maintain system frequency between 49.80 Hz and 50.20 Hz for at least 99.0% of the time).

Given the concerns outlined above, the IMO's approval of the 2013 Ancillary Service Report and 2013/14 Ancillary Service Plan is on the basis that:

- System Management will continue to work with the IMO to:
 - determine how much LFAS is being used and the main drivers causing the requirement for LFAS;
 - better understand the relationships between Balancing, LFAS, Spinning Reserve Service and Load Rejection Reserve Service;
 - identify and progress options to reduce the LFAS Requirement; and
 - develop effective methodologies to forecast the LFAS Requirement and monitor actual LFAS usage;
- System Management will reassess the LFAS Requirement to reflect any guidance provided by the PUO on the discrepancy between the LFAS performance level proposed in the report and the performance level prescribed in the Technical Rules; and
- information about the quantities of Load Rejection Reserve Service provided during the preceding year is unavailable, but System Management will endeavour to amend its systems in order to provide the information required under clause 3.11.11(a) in the 2014 Ancillary Service Report.

Please contact me on (08) 9254 4333 if you have any further queries.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Allan Dawson', written over the typed name.

ALLAN DAWSON
CHIEF EXECUTIVE OFFICER

1 July 2013