

## Wholesale Electricity Market Rule Change Proposal Submission

**RC\_2018\_03**

### Capacity Credit Allocation Methodology for Intermittent Generators

**Submitted by**

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Submissions on Rule Change Proposals can be sent by:

Email to: [rcp.secretariat@rcpwa.com.au](mailto:rcp.secretariat@rcpwa.com.au)

Post to: Rule Change Panel  
Attn: Executive Officer  
C/o Economic Regulation Authority  
PO Box 8469  
PERTH BC WA 6849

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

Synergy has reviewed Collgar's Rule Change Proposal: Capacity Credit Allocation Methodology for Intermittent Generators and would like to provide the following comments for the Rule Change Panel's further consideration.

Synergy understands Collgar's position is that capacity accreditation should be based on a generator's ability to meet peak system load and that the Relevant Level Methodology, as it is currently calculated, is somewhat conservative in allocating Capacity Credits.

Synergy is unable to support Collgar's proposal to replace the use of the Load for Scheduled Generation (**LSG**) Trading Intervals in the Relevant Level Methodology of the Wholesale Electricity Market Rules (**WEM Rules**) with the use of actual system peak Trading Intervals, for the following reasons:

1. Synergy considers that the current Methodology supports the objectives of the Reserve Capacity Mechanism (**RCM**) and is not overly conservative.

Synergy considers that the whole of the Capacity Credit cycle needs to be taken into account to ensure that capacity providers are paid a price for the capacity available that reflects the value that capacity provides to the system. Synergy does not consider Collgar's proposal achieves this objective.

Synergy is of a view that capacity accreditation for a non-reliable resource like a wind farm should not be based solely on that facility's ability to meet peak demand without also considering the other unique ways that the capacity for Non-Scheduled Generators is treated (e.g. testing and refunds) in the RCM.

Synergy cannot agree that the current methodology is overly conservative given that Non-Scheduled Generators receive certain concessions under the RCM. The current Relevant Level Methodology represents a balanced approach between assigning Capacity Credits to Non-Scheduled Generators that reflect the ability of those Facilities to meet demand and the inability of those Facilities to reliably provide capacity when needed. The use of the LSG in the current Relevant Level Methodology ensures a value reflective price is paid for Non-Scheduled Generators' capacity by moving the risk of paying refunds for non-delivery to the time of certification rather than requiring real time refunds, as well as removing the risk of having capacity credits reduced as a result of a failed reserve capacity test.<sup>1</sup>

Synergy also believes that the use of the LSG Trading Intervals in the Relevant Level Methodology supports the main objective of the RCM, which is to ensure that sufficient capacity is available in the South West Interconnected System (**SWIS**) during periods of peak demand to meet reliability targets, so the calculation should remain as is.

2. Synergy does not believe that the proposal promotes economic efficiency in the Wholesale Electricity Market (**WEM**).

Synergy is concerned that, given the current Relevant Level Methodology efficiently assigns Capacity Credits to Non-Scheduled Generators where the "value" of those Capacity Credits is highest, Collgar's proposed change would promote economically inefficient capacity assignment to Non-Scheduled Generators<sup>2</sup>.

Synergy notes that the proposed rule change would, on a simplistic view, reduce the total capacity cost in the SWIS, at least for the short term, and that higher Capacity Credits for renewable generators could increase the value of market generators' renewable assets. However, Synergy considers these effects are largely artificial because they would be achieved by artificially increasing the number of Capacity Credits available when there has not actually been an increase in the overall capacity available. In Synergy's view, over the longer term, this artificial increase in Capacity Credits would cause an economically inefficient price signal to be produced by lowering the Reserve Capacity Price in a manner that does not represent the true value of capacity. Such an artificially low price signal would lead to inefficient investment decisions for the WEM,

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<sup>1</sup> Conversely, for Scheduled Generators, the WEM Rules ensure a similar value reflective pricing is promoted by assuming 100% availability at the time of certification, but requiring the generator to pay reserve capacity refunds if the capacity is unavailable at times where capacity is scarce and also by reducing Capacity Credits if a Reserve Capacity Test is failed.

<sup>2</sup> Synergy notes that requiring Non-Scheduled Generators to participate in the reserve capacity refund regime would remove this economic inefficiency. However, Synergy considers the current Relevant Level Methodology is better left unchanged because applying refunds to Non-Scheduled Generators would not appropriately reflect the intermittent nature of the Facilities. Specifically, two issues arise here: firstly, applying refunds to Non-Scheduled Generators may cause an outlier year (in terms of non-delivery at peak times) to financially ruin a Non-Scheduled Generator; and secondly the refund regime penalises when less capacity is provided, but does not compensate when excess capacity is provided.

which would consequently increase long term costs, and cause reliability issues.

3. The proposal does not take into account a number of other commercial implications in the RCM, such as:

- The increase in the level of capacity accreditation for renewables will potentially increase the reserve capacity surplus thus putting downward pressure on Reserve Capacity Price. This may result in adverse commercial outcomes for other market participants depending on their relative Individual Reserve Capacity Requirement (**IRCR**) and capacity credit position.

Synergy is of a view that the Proposal will provide a windfall gain to some non-scheduled generators, but it will result in negative impact on the Reserve Capacity Price which will hurt all other generators. We also believe that the proposal does not cover certain commercial aspects of the RCM and does not promote economic efficiency.

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

Collgar's proposal does not take into account all of the commercial implications it may have in the RCM and does not address important exemptions intermittent generators receive under the RCM (e.g. they do not pay refunds and are not exposed to testing). Synergy does not believe that the proposal will advance economic efficiency.

Synergy does not agree with Collgar's statement that system security and reliability will not suffer any negative consequences, which is another concern for meeting market objective of safe and reliable supply of electricity. In fact, as outlined above, Synergy considers Collgar's proposal will:

- a) Distort the price signals sent by the RCM so future capacity is less likely to be built when it is needed; and
- b) Result in what is effectively artificial capacity being assigned to Non-Scheduled Generators, which will increase system security risks because no additional capacity is actually available.