RCP | Rule Change Panel

Wholesale Electricity Market Rule Change Proposal Submission

RC_2019_01
The Relevant Demand Calculation

Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: support@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 appreciates the opportunity to provide a submission on *The Relevant Demand calculation (RC_2019_01)* proposal.

Synergy does not support the proposed reforms to the process for determining a Demand Side Programme's (DSP) Relevant Demand considering that:

1) The proposed method would likely increase the Capacity Credits DSPs receive, without improving the "capacity product" they provide compared to other capacity resources. Synergy considers the current Relevant Demand method is designed to make the quantity of Capacity Credits DSPs receive reflect the capacity product DSPs provide. The PUO's *Final Report: Reforms to the Reserve Capacity Mechanism*[1] said the reason for reforming DSPs' capacity obligations and Relevant Demand (to the current arrangements) was "to ensure that demand side resources that receive capacity certification are available at all times when there may be a reasonable

[1] Refer https://www.treasury.wa.gov.au/uploadedFiles/Site-content/Public_Utilities_Office/Industry_reform/Reforms-to-the-Reserve-Capacity-Mechanism-Final-Report.pdf

likelihood of dispatch for a peak demand event." Further, the report said, "[a] facility that cannot provide capacity at these times is not providing a similar 'capacity product' to other capacity resources." Given this, Synergy suggests that DSPs should not receive more Capacity Credits than they currently do until the capacity product they provide is improved relative to the capacity products provided by other capacity resources. This would involve further harmonising the differences between the availability obligations imposed on DSPs relative to the more rigorous obligations imposed on Scheduled Generators. These differences in availability requirements are outlined below:

- Scheduled Generators are required to offer their accredited capacity in every interval into the STEM and Balancing Market. By contrast, DSPs:
    - are only required to be available between 8:00am and 8:00pm on business days (clause (4.10.1(f)(iii));
    - may only be dispatched where available generation capacity has been exhausted (clause 7.6.1C); and
    - are only required to be available for dispatch up to 200 hours per year (clause 4.10.1(f)(ii)).
- Scheduled Generators must demonstrate they can provide their accredited capacity for 14 consecutive hours to receive Capacity Credits (4.10.1(e)(v)(2)), whereas DSPs must only provide their accredited capacity for up to 12 consecutive hours (4.10.1(f)(iii)).

Further, without improving the capacity product DSPs provide, the proposed reforms would effectively require Market Customers to pay DSPs more (via higher Capacity Credits), without receiving additional benefit (i.e. reliability will not be increased).

2) Allowing DSPs to be allocated more Capacity Credits than currently increases the risk that they may not be able to deliver their full accredited capacity when required. Noting that DSP's are dispatched as a last resort (refer clause 7.6.1C), Synergy considers that if DSPs are to receive more Capacity Credits, they should also provide more assurance that they are able to deliver their full Capacity Credits when dispatched. Under the current rules, Synergy considers there is a greater risk that a DSP's accredited capacity will not be fully available when compared to a Scheduled Generator's accredited capacity. This is because a DSP's Relevant Demand is based on a limited sample of the 200 peak demand hours, whereas the DSP's actual demand is likely to vary over the course of the Capacity Year and may be lower than the DSP's Relevant Demand in many intervals. If the DSP's underlying demand is lower than the DSP's Relevant Demand, the DSP may not be able to deliver its full accredited capacity. The proposed reforms would potentially increase the risk this will occur. This is because the reforms would likely increase the Relevant Demand of DSPs by decreasing the subset of intervals on which it is based. By contrast, the availability of a Scheduled Generator's accredited capacity is more certain, considering it is not dependent on a customer's underlying demand.

3) Planned reforms to the Reserve Capacity Mechanism[2] will increase the capacity price DSPs receive – incentivising investment in demand-side capacity – while simultaneously increasing the responsiveness of the capacity price to new capacity

[2] Refer to: https://www.treasury.wa.gov.au/Public-Utilities-Office/Industry-reform/Improving-Reserve-Capacity-pricing-signals/

investments (via a steeper demand curve). Synergy considers that RC_2019_01 would further incentivise investment in demand-side capacity and therefore should at a minimum be delayed until the impact of the forthcoming RCM reforms is understood. Implementing both reforms simultaneously risks over-incentivising investment in demand-side capacity relative to other forms of capacity.

Synergy considers that excessive investment in demand-side capacity, in conjunction with the steeper demand curve may significantly decrease the reserve capacity price, which will decrease incentives for investment in other forms of capacity, including Availability Class 1 capacity. Lower levels of Availability Class 1 capacity may decrease the system's reliability and put upward pressure on energy and essential services prices.

4) The proposal does not provide draft rule amendments, nor a comparison of the costs and benefits of the proposed reforms. Given the uniqueness of the SWIS, Synergy considers there is a risk that the proposed reforms may be more complex and costly than expected. As follows, Synergy considers that a more detailed analysis of the costs and benefits, and draft amendments are required before the proposal can be properly assessed.

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

As noted, the planned RCM reforms will likely incentivise more DSP participation in the RCM relative to other capacity resources. Synergy considers the combination of these reforms and those contained in the rule change proposal could lead to excessive investment in demand-side capacity. This may significantly decrease the reserve capacity price and discourage investment in Availability Class 1 capacity which is required to provide reliability. Synergy considers this would represent a conflict with Market Objectives (a) and (b).

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3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Synergy cannot properly assess the potential costs to its business of the proposed change until the implications of the proposal are made clear via draft rule amendments and a cost-benefit analysis.

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4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Synergy cannot properly assess time requirements of the proposed change until the implications of the proposal are made clear via draft rule amendments.
