

6 June 2023

Mr Jai Thomas
Energy Policy WA
Locked Bag 11
Cloisters Square, WA 6850
Sent by email to: EPWA-Submissions@dmirs.wa.gov.au

Dear Mr Thomas

Reserve Capacity Mechanism Review – Information Paper (Stage 1) and Consultation Paper (Stage 2)

Change Energy is pleased to have been invited by Energy Policy WA (EPWA) to contribute to the Reserve Capacity Mechanism (RCM) Review. Our comments in this submission are made from our perspective of a retailer seeking to reduce the overall cost of electricity in the Southwest Interconnected System (SWIS).

Change Energy reiterates the following views provided in our submission to the Stage 1 Consultation Paper:

- The RCM has played and will continue to play a vital role in ensuring reliability and security of supply in the SWIS. While historically it has provided an opportunity for generators to earn a reasonable return on their assets, going forward, the RCM will need to provide a strong incentive for efficient investment and economic retirements of generators over the long term.
- We do not consider the RCM requires wholesale change. However, we acknowledge a number of the proposed amendments will improve supply-side services for customers, including for example the introduction of a flexible capacity product.
- We do not support the State Government’s proposal to penalise carbon emitting capacity through the RCM. While Change Energy supports decarbonisation, it remains important to have sufficient capacity that can ‘firm-up’ the inherent intermittency of renewable generation. We highlight it is unlikely batteries will be a commercial solution, particularly at the scale required in the SWIS to replace coal and gas.
- Consideration must be given as to how retailers will be able to manage these supply-side costs in a way that will ensure they can be recovered from customers rather than being absorbed by retailers. We acknowledge the intent to address this question (in part) through the Cost Allocation Review. However, this uncertainty impedes our ability to commercially negotiate retail contracts that span several years including those covered by the new arrangements.

Our comments on the Phase 2 Consultation Paper are provided in the following sections.

Individual Reserve Capacity Requirements (IRCR)

Change Energy considers the IRCR mechanism is fit-for-purpose and does not need to be amended. The Australian Energy Market Operator (AEMO) provides analysis demonstrating the effectiveness of the IRCR mechanism. In the 2021 analysis, AEMO stated¹:

At the time of peak demand for the 2020-21 Hot Season, AEMO estimates that 42 (8%) of the sampled National Metering Identifiers (NMIs) reduced consumption, resulting in a total reduction of 146 megawatts (MW). This represents the highest IRCR response to date.

AEMO's analysis shows an increased IRCR response from 38 MW in 2012/13 to 146 MW 10 years later. Despite the increasing difficulty predicting the peak periods as more customers shift load away from the traditional peak temperature periods, retailers and end users have continued to respond to the IRCR incentive mechanism, demonstrating its effectiveness and value.

The IRCR mechanism in its current form is working well. We therefore urge EPWA only make amendments where absolutely necessary, and to ensure there is a robust case for those changes. Any changes that destabilise the mechanism, add unnecessary complexity or create uncertainty will reduce the effectiveness of the incentive. We need to be careful we don't regress by making non-essential amendments.

Our views are aligned with EPWA's qualitative analysis, which suggests retaining the existing approach overall is the most aligned with the objectives of the IRCR. It is assessed as superior to other methods considered in all but one metric (volatility), second to an approach that uses a mix of peak and general consumption. We consider this move away from the general principle of the RCM being to address peak demand, and the move away from a causer-pays approach to be detrimental to the operation of the IRCR mechanism.

On this basis, Change Energy supports EPWA's recommendation to allocate IRCR on based on consumption in high demand intervals, on an ex-post basis (Proposal A and Proposal B).

Temperature dependence

Change Energy has long advocated for the removal of temperature dependence multiplier factors from the IRCR mechanism. We agree with EPWA's assessment, in particular that each MWh of consumption at peak times has an equivalent contribution to the Reserve Capacity Requirements, and Non-Temperature Dependent Loads also have an opportunity to reduce their IRCR exposure in different ways.

We therefore support removing temperature dependence multipliers from the IRCR process (Proposal C).

Demand-Side Programme (DSP) Certified Reserve Capacity (CRC)

Change Energy considers price signals for the contribution of (flexible/controllable) loads to meeting peak should be symmetrical to the extent possible (i.e. loads should ideally be indifferent to whether they reduce consumption via the IRCR mechanism, or a DSP).

On this basis we support the continued approach to assign CRC to DSPs based on the IRCR of the Associated Loads less the minimum load requirement of those Associated Loads (part 1 of Proposal G).

We acknowledge the Associated Loads of some DSPs are more changeable within and between years (e.g. those of small load aggregators), and this needs to be managed. However, this already occurs and as noted by EPWA, the certification process already contemplates this. We recommend only introducing an alternative approach (such as the recommended nomination approach) if significant issues are identified with the existing approach.

On this basis, we do not support the addition of a second DSP CRC approach at this time (Part 2 of Proposal G).

¹ https://www.aemo.com.au/-/media/files/electricity/wem/planning_and_forecasting/esoo/2021/2021-wem-esoo-ircr-analysis.pdf?la=en

Reserve Capacity Refunds

It is Change Energy's view that there was never any reasonable justification for Reserve Capacity Refunds being rebated to generators instead of customers. Fundamentally, if a service has not been provided, those who have paid for the product – the customer – should receive the refund.

In periods of shortfall, customers will actually pay more for the same level of service in the form of Non-Co-optimised Essential System Services and Supplementary Reserve Capacity. The redirection of refunds to customers will go some way to mitigating this additional cost of supply, rather than unnecessarily adding to it.

EPWA suggested refunds could be pooled and used to pay for services to cover any potential shortfall. While this may be administratively easier, this approach is likely to increase a retailer's cost of service with limited benefit.

On this basis, we support the distribution of capacity refunds to participants responsible for loads rather than other capacity providers (Proposal S).

If you have any questions or would like to arrange a meeting to discuss any aspect of this submission, please contact me at Geoff.Gaston@changeenergy.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "G. Gaston".

Geoff Gaston
CEO