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RESERVE CAPACITY MECHANISM REVIEW – INFORMATION PAPER (STAGE 1) AND CONSULTATION PAPER (STAGE 2)

Synergy welcomes the opportunity to provide comment on Energy Policy WA's (EPWA's) *Reserve Capacity Mechanism Review - Information Paper (Stage 1) and Consultation Paper (Stage 2)*¹ (**Paper**). The Paper outlines EPWA's final design elements from stage 1 and further proposed changes resulting from stage 2 of the Reserve Capacity Mechanism (RCM) Review in the Wholesale Electricity Market (**WEM**). Synergy congratulates EPWA on the timely review of the RCM to ensure it continues to be fit for purpose as the WEM transitions towards net zero emissions.

Synergy's comments on the Paper and design proposals are provided **below**.

Overview

Synergy considers that majority of the proposed design elements appear to be appropriate at a high level and notes that further refinement of the proposals may be needed when determining the finer details when undertaking the rule drafting. However, Synergy considers the following issues may require further investigation within the RCM Review, or alternatively in other EPWA work projects:

- Development of a detailed understanding of the potential role that Distributed Energy Resources (**DER**) has within the RCM and the WEM and ensuring that the WEM Rules provide fair compensation and incentives for its participation;
- Further consideration of the duration gap and the differing obligations for the various facility types and Capability Classes and ensuring that facilities are fairly compensated for the reliability they provide; and
- Ensuring the WEM allows for appropriate revenue to encourage new investments when required.

¹ https://www.wa.gov.au/system/files/2023-05/epwa_reserve_capacity_mechanism_review_information_and_consultation_paper.pdf

Stage 1 final design elements – Further Considerations and Clarity

Flexible Capacity (review outcome 4)

Synergy notes that FCESS accreditation exposes facility owners to additional risks and likely costs (due to additional testing requirements). Although it is likely that the facilities providing flexible capacity may be capable of providing FCESS, there should not be a requirement for the facilities to be certified. This requirement mixes signals, and effectively means that the flexible capacity product creates a capacity payment for facilities providing FCESS as well as ramping. Synergy is also of the understanding that this proposal was not raised within the RCM Review Working Group (**RCMRWG**) or at the Market Advisory Committee (**MAC**). Synergy does not support the requirement for flexible capacity providers to be accredited for FCESS. Further, if this requirement were to go ahead, the proposed approach for the cost allocation for flexible capacity would need to be amended to ensure that Market Participants that cause the need for FCESS are paying their fair share of the capacity cost.

Capacity Certification (review outcomes 8, 9, 11 and 13)

Synergy congratulates EPWA's on the recent changes undertaken as part of the Market Power Mitigation Strategy that will ensure participants are able to reflect costs associated with long term take or pay contracts in their market submissions. However, Synergy considers that the 14-hour fuel obligation currently enacted within the WEM Procedure is overly restrictive and excessive in comparison to a reasonable expectation of the facility's dispatch. Synergy is of the view that further consideration is needed to ensure the fuel obligations for certification are reasonable and appropriately consider the changing dynamics of the WEM. In addition, with the policy intent of implementing the penalties for high emission technologies regime, further review and refinement of the obligations and fuel requirements will be needed to ensure that there is alignment with the regime.

Synergy is supportive of the replacement of the current Relevant Level Methodology for the purpose of determining the Certified Reserve Capacity (**CRC**) for intermittent generation and the proposed methodology seems appropriate. However, Synergy suggests that further refinements for the calculation are needed as it may result in the removal of valid data. Synergy considers that a sense check should be undertaken to confirm that the lowest capacity year is not reflective of a system stress event prior to its removal. A potential solution could be that the data is removed if it is below the next lowest data by a set threshold (an appropriate threshold will need to be determined). This confirmation of validity should be undertaken prior to data removal in step (3) of the fleet CRC calculation and the data removal in step (2) of the calculation for facility level CRC.

Synergy agrees that providers of flexible capacity should be required to meet appropriately defined capability requirements to ensure that the facility is capable of providing the flexible capacity service. However, Synergy considers that the minimum stable loading level should not be a key determinate in the certification of flexible facilities. Further, the proposed 10% minimum stable level is unlikely to be achievable for the majority of existing facilities that can deliver on the ramping requirements (and are currently doing so in the SWIS). The requirement for these facilities to ramp on from one Dispatch Interval to the next should be easily manageable as the ramping load is expected to increase by large enough volumes that will be more than adequate to allow for min-gen requirements to be met as the flexible facilities successively start up to meet the increasing ramping load over time.

Synergy notes that fuel limited facilities, such as Electric Storage Resources (**ESRs**) that are certified under Capability Class 2 may have competing obligations imposed if they are certified for both the flexible and peak capacity products. The flexible capacity provision is likely to be required outside of the Electric Storage Resource Obligation Intervals (**ESROI**) and as such creates an obligation for the ESR to provide capacity over a longer duration. Synergy seeks clarity as to the how the competing obligations are going to be managed and

would like to understand if the Offer Construction Guideline will be providing guidance as to how the competing obligations are to be included in Market Participant's offers.

Stage 2 Proposed Design Elements

Synergy is generally supportive of the design elements provided by EPWA in relation to Stage 2 of the RCM Review as provided in the second part of the Paper entitled "Part Two – Consultation Paper"². At a high level, the majority of the design proposals appear to be appropriate, however Synergy suggests further refinements and considerations are required for a select few proposals. Synergy has provided comments on these items below.

Individual Reserve Capacity Requirement for Peak Capacity

Synergy is supportive of the proposed approach for the selection of Individual Reserve Capacity Requirement (**IRCR**) intervals and considers that approach of ensuring at least 12 intervals and at least three days are used in the calculation provides a good balance and is an improvement to the current approach. However, with the on-going changes to due to transition to net zero emissions and the continued uptake of Distributed Energy Resources (**DER**), Synergy considers that the IRCR methodology may need to be reviewed at a later stage to ensure it continues to be an appropriate methodology to allocate costs for capacity and reliability in the WEM.

Synergy supports the removal of the TDL and NTDL multipliers used within the IRCR process. Further, as stated in the Paper, these loads are likely to be able to better manage their demand in high demand intervals and to incur minimal charges (if any) under the flexible capacity product.

Individual Reserve Capacity Requirement for Flexible Capacity

Synergy is supportive of the implementation of the Flexible Capacity Product and agrees that a shortfall in ramping capacity may cause system stress events. However, Synergy suggests the proposal needs further review and consideration.

Synergy believes that DER aggregation and orchestration can play a critical role in the mitigation of the ramping risks. However, DER orchestration in the WEM is currently in its infancy, and at the current aggregation levels will have limited ability to assist with ramping requirements. Synergy suggests that further work should be undertaken investigating the future role of DER and ensuring that the WEM Rules and obligations do not hinder DER's participation in this service delivery. Further, as DER can act on both the supply and demand side, caution needs to be taken to ensure that the incentives and rewards for the provision of the service and reduction of requirement are aligned.

Synergy also suggests that the methodology used to determine the flexible capacity requirement and the allocation of costs may require monitoring to ensure that this product does not become a "proxy" for the provision of FCESS capacity, noting that the WEM does not have a capacity product for the provision of FCESS. If the majority of the provision of FCESS were to be provided by flexible capacity, additional consideration is needed to ensure that causers of FCESS requirements are contributing fairly to costs of this capacity provision.

Demand Side Programmes

Synergy considers that the proposal to reduce the availability requirement for DSP may be appropriate. However, Synergy is strongly of the view that the compensation paid to DSP capacity should also be reduced in line with any reduction in the availability requirement. All

² Pages 46 to 87 of the Paper.

other facilities in the WEM have significantly higher availability obligations compared to DSPs³, and this difference should be reflected in the compensation paid to facilities. DSP facilities could be paid a significantly higher price when dispatched, in line with a WEM estimation of VoLL, and a low availability payment (noting that the payment needs to include a reasonable incentive as well as covering costs related to being available for DSP). Synergy notes there is currently a newly established Demand Side Response Working Group that may be an appropriate mechanism to further explore the requirements and incentives for DSP facilities.

Capacity Refunds and Rebates

Synergy considers that facilities should only pay refunds based on the product that they are not providing at the refund rate that applies to that product. Generally, when a facility is on outage for flexible capacity it will also be on outage for peak. However, there are circumstances that may result in a facility still being able to provide a peak capacity product but not being able to meet the flexible obligations (for example a temporary ramp rate restriction or increased minimum stable load). As the facility is still able to provide the peak capacity product, it should only be paying refunds based on the incremental amount that it would otherwise have been paid for the flexible capacity product. The refund rate that should be applied in this circumstance should be the refund rate applicable to the reliability of the flexible product.

Synergy considers that refunds should be calculated based on two separate payment pools, one for each of the capacity products. Thus, for a facility that provides both peak capacity and flexible capacity:

- When the facility is available for peak but not flexible, it pays refunds from the flexible pool based on the incremental amount paid for flexible at the flexible refund rate.
- When the facility is unavailable for both products it pays:
 - refunds from the peak pool based on the peak capacity price at the refund rate applicable to peak capacity; and
 - refunds from the flexible pool based on the incremental flexible price at the refund rate applicable to flexible capacity.

The proposed approach of two capacity pools will ensure that the refunds collected for each of the products can be redistributed to Market Participants in relation to the product that has been paid for. Thus, the refunds collected for flexible capacity can be redistributed to those that incur these costs and ensures these monies are not being paid to other Market Participants. With one pool of refunds, it becomes more difficult to ensure the redistribution of refunds is appropriate.

Synergy is supportive of the proposed change to the distribution of collected capacity refunds and agrees that refunds should be distributed to those that pay for costs of the capacity provision. Synergy also considers that the redistribution of refunds to Market Participants associated with the peak capacity product go to Market Participants based on their IRCR share, and refunds associated with the flexible capacity product based on the Flexible IRCR share.

Determination of the BRCP Technology

Synergy supports a different Benchmark Reserve Capacity Price (**BRCP**) being applied to the flexible capacity product and consideration of the potential difference in the reference technology (being the technology itself, as well as operational capabilities and requirements

³ Synergy notes that ESR have a four hour daily availability obligation (equates to 1,460 hours) and all other generation must offer in every interval (equates to 8,760 hours).

that may impact the costs and life of the facility). The proposal for the Coordinator to undertake a review of the appropriateness of the reference technology at least every five years appears to be appropriate. Synergy considers that the review of the reference technology and methodology for the BRCP should also consider ensuring that the BRCP covers all efficient costs that are expected to be incurred by facilities that are not recoverable in the other markets as well as ensuring that facilities not expected to be dispatched can recover all efficient market costs.

Synergy reiterates its concerns with the appropriateness and complexities of the potential use of net CONE to determine the BRCP. The RCM by design is intended to over-procure capacity to ensure that there is sufficient capacity and capacity in reserve for an extreme demand event, which is well in excess of expected normal operating conditions. The facilities that are being procured by the RCM for extreme events and added supply security need to be kept whole via their RCM revenues alone as they are not expected to be dispatched under normal conditions. A net CONE approach is unlikely to be able to meet this requirement. The RCM revenues are of critical importance to the WEM and any changes to the BRCP and underlying assumptions and methodology need to ensure that sufficient revenues to support investment can be achieved. Extensive consultation and modelling need to be undertaken prior to the adoption of a net CONE approach to ensure it can deliver on appropriate compensation for capacity providers in the WEM.

Financial Analysis

Synergy commends EPWA for undertaking the financial analysis of the current and future market. EPWA's analysis highlights the need for increased revenue and revenue certainty in the WEM to be able to support and encourage investment. Synergy strongly supports further work being undertaken by EPWA to determine potential solutions to address these problems and the development of measures to encourage the investments needed in the WEM as it transitions to net zero emissions.

Conclusion

Synergy appreciates the opportunity to provide comment on EPWA's work thus far on the RCM Review and the proposed design elements of the RCM. Synergy looks forward to continuing to work with EPWA and members of the RCM Review Working Group in undertaking stage 3 of the RCM Review.

Yours sincerely



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