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Energy Policy WA

Submitted via: energymarkets@dmirs.wa.gov.au

**RCM Review Information Paper (Stage 1) and Consultation Paper (Stage 2)**

We appreciate the opportunity to provide feedback on the second consultation paper of the RCM review.

We strongly support strengthening incentives in the RCM for the capacity required to achieve the State's net zero emissions targets and maintain reliability, considering the inadequacy of the current revenue streams,[1] and the need for significant investment both imminently and for the remainder of the decade to maintain reliability.[2]

While we support most of the design proposals and review outcomes outlined in the paper, we have material concerns that:

- The proposal to redistribute capacity refunds to retailers is based on flawed assumptions that all forced outages contribute to the need for SRC and NCESS, and that retailers will pass through the re-allocated rebates to their customers. We consider that this proposal would not offset the costs of SRC and NCESS as hoped and would instead provide Synergy a windfall gain, as the retailer to uncontestable customers. It may also undermine incentives to invest, noting that the proposed redistribution would prevent generators from earning rebates via strong performance at a time where persistent low reserve conditions are increasing refund multipliers and making it extremely difficult for generators to secure planned outages.

- The excessively generous terms proposed for DSPs, including the plans to allow them to select their own CRC, would create an uneven playing field and may cause exploitative applications. This could distort the efficient signals for DSPs, increase the volatility of the capacity price, undermine reliability, and lead to an oversupply of DSP capacity at the expense of consumers (similar to the issues which led to the current arrangements that pared back the allowances for DSPs through the early stages of the EMR). It is vital that DSP is appropriately compensated commensurate with its benefits to the system and underlying cost structures and we do not consider the current proposal achieves this.

- Setting an extremely conservative of EUE target of 0.0002% will unnecessarily restrict the determination of the intermittent generator fleet capacity value to very few intervals, needlessly increasing its volatility and undermining incentives to invest.

- Retaining the 14-hour fuel requirement has not been adequately justified. We consider that this may unnecessarily increase procurement costs to potentially extreme levels as a shortfall in domestic gas supply is predicted. It may also create an uneven playing field and perverse incentives for other technology types if "capability class 2" ESR facilities and DSPs facilities receive the same CRC for meeting a lower duration requirement as proposed.

[1] As identified in MJA's report on revenue adequacy in the WEM, and ERA's effectiveness review, and the findings in the paper that wind and solar is not profitable past 2030.
[2] The SWISDA forecasts that the SWIS's capacity will need to increase by 5times by 2031.

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Alinta Energy's comments on each of the design proposals is contained in attachment 1.

Thank you for your consideration of our submission. If you would like to discuss further, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely

**Oscar Carlberg**
Wholesale Regulation Manager

| Review Outcome/ question | Alinta Energy position |
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| **Review Outcome 3**<br><br>A new flexible capacity product will be introduced to the RCM. The Planning Criterion will include a third limb requiring AEMO to procure flexible capacity to meet the size of the steepest operational ramp expected on any day in the upcoming Capacity Year from either the 10% or 50% POE load forecasts. | **Support, with caution**<br><br>While we support the concept in principle. However, we caution that the proposed flexibility product may bring significant complexity and implementation costs, noting that it effectively sets up a new RCM. Given this we recommend that:<br><br>• Further consideration is given to whether this product is necessary and will precipitate a higher price compared to the peak product, noting the government's plans to build 500MW of storage in Collie and at least another 200MW of storage in Kwinana before the end of 2025.<br><br>If progressed, the reform should aim to avoid imposing a new penalty and outage scheme compared to the peak product. |
| **Review Outcome 9**<br><br>Capability Class 1 facilities will be required to be available during all Dispatch Intervals, unless on an outage, and the requirement to demonstrate sufficient fuel for 14 hours of daily operation will be retained. | **Do not support**<br><br>We continue to oppose the proposal to retain the 14-hour fuel requirement for the reasons outlined in our previous submission as summarised below:<br><br>• there is a lack of evidence that facilities will be required for 14 consecutive hours within the next decade.<br>• Maintaining this requirement may be extremely expensive, if not infeasible, as the gas market tightens due to further reserve downgrades and with so few producers in WA's concentrated market willing to sell gas three years in advance.<br>• The paper lacks adequate justification for why a much shorter (4-hour) duration requirement is appropriate for ESR capability class 2 facilities while non ESR class 2-facilities must have their CRC reduced where they do not meet the 14-hour requirement.<br><br>EPWA has recognised stakeholders' concerns but proposes to retain the 14-hour requirement, considering that:<br><br>a) relaxing the requirement would risk reducing the level of reliability provided for by the WEM Rules and thereby undermine a key principle of the RCM Review.<br>b) recent fuel supply issues illustrate the importance of fuel availability.<br>c) Reforms under the Market Power Mitigation Strategy permit participants to recover long-term take-or-pay fuel contracts in their market submissions.<br><br>We disagree with point (a), considering the case has not been made why 14-hours of fuel is necessary for reliability.<br><br>We disagree with point (b), considering that Synergy's fuel supply issues would not have been mitigated by the 14-hour fuel requirement – we understand that their issues were caused by their suppliers being unable to replenish their fuel supply generally and this issue would have existed even with a much lower requirement. Also, Synergy's significant |

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| | outage did not precipitate duration gaps that required other thermal generators to run at their full capacity for 14 consecutive hours.<br><br>In response to point (c), we consider that although the MPM reforms are helpful in covering fuel costs in the RTM compared to the status quo, they would not permit participants to recover the costs of reserving 14 hours of fuel. The cost of a large amount of fuel that is not used cannot be amortised over the next dispatch run. The current price caps would not permit this, and it would be difficult to operationalise. Further, it would likely prevent the facility from clearing, creating a feedback loop that leaves more costs to be recovered over the next run and therefore higher theoretical offer prices in future.<br><br>In place of the 14-hour fuel requirement, we recommend that the duration for class 1 facilities be aligned with ESR, or otherwise, that a compromise is reached between the two requirements. |
| **Review Outcome 13**<br><br>The WEM Rules will require AEMO to set maximum standards for:<br><br>• minimum stable loading level;<br>• start time (time from receiving a Dispatch Instruction when in a "cold" state to reaching the facility controllable range);<br>• minimum running time (time from receiving a Dispatch Instruction when in a "cold" state to turn on, run, and turn off again);<br>• stop time (time from receiving a Dispatch Instruction when running at the minimum of its controllable range to ramp down to zero output); and<br>• restart time (time from desynchronising to synchronizing)<br><br>"The minimum stable loading level is particularly important for the effectiveness of this product, | **Support, with caution**<br><br>We are not opposed to the concept of requiring AEMO to set performance requirements for the flexible capacity product. However, we are concerned that changing performance requirements over time with limited or uncertain payback periods may create unacceptable risk which could lead to investors being unwilling to make the modifications necessary to meet the performance requirements. This could result in difficulty procuring the required flexible capacity or require a risk premium to be included in the BRCP to incentivise the investment.<br><br>Finally, if performance standards are adopted, it is vital that these are not set arbitrarily and are supported by robust analysis and consultation.<br><br>**Do not support**<br><br>Review outcome 13 considers the certification of facilities providing flexible capacity and states that "the minimum stable loading level is particularly important for the effectiveness of this product and is likely to be 10% of the facility nameplate capacity or less."[3]<br><br>We would oppose this 10% requirement without further analysis, considering that:<br><br>• A requirement for minimum generation can be offset by fast-response times, and<br>• Most gas facilities are not able to reasonably achieve 10% minimum generation without significant investment, which would need to be recognised in the BRCP.<br><br>**Support**<br><br>We agree with the proposal for Facilities providing flexible capacity to be dispatched for energy through the already established dispatch algorithm, and that they will not be "explicitly held in reserve for later use". |

[3] See p44, Reserve Capacity Mechanism Review Information Paper (Stage 1) and Consultation Paper (Stage 2)

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| and is likely to be 10% of the facility nameplate capacity or less." | |
| **Stage 2 proposals** | |
| **Proposal A:**<br>Continue to set participant IRCR based on contribution to load in high demand intervals. | **Support** |
| **Proposal B:**<br>Retain the current approach of using only intervals in the Hot Season (Trading Days from 1 December to 31 March) to set IRCR.<br>Amend the IRCR interval selection provisions to ensure that:<br>o all 12 highest demand intervals in the Hot Season are selected;<br>o intervals on a minimum of three days are selected; and where the peak intervals occurring on each day are not contiguous, the intervening intervals are selected. | **Support** |
| **Proposal C:**<br>Remove Temperature Dependent Load (TDL) / Non-Temperature Dependent Load (NTDL) multipliers from the IRCR process. | **Support** |

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| **Proposal D:**<br>Calculate IRCR on a daily basis.<br>Set representative load for new meters based on the maximum of the median demand in the four peak intervals of any prior calendar month. | **Tentative**<br>While we appreciate the logic in setting a new load's IRCR based on its maximum load in any prior month, we do not understand why IRCR should be re-calculated daily and question whether the benefits of this would be worth the additional computational effort. We note that prior reforms to the IRCR and prudentials under the 'Reduction of Prudential Exposure' involved substantial work. |
| **Proposal E:**<br>Set participant IRCR for flexible capacity based on the load shape in high ramp periods. | **Support** |
| **Proposal F:**<br>Set IRCR for flexible capacity based on the three days with the highest four-hour upwards ramp at any time during the year.<br>Require AEMO to publish the forecast ramp so that consumers can monitor and respond to the cost signal. | **Support** |
| **Proposal G:**<br>Where a DSP has:<br>o the same Associated Loads that it had in the previous year, assign CRC based on IRCR of the Associated Loads less the minimum load requirement of the Associated Loads; and<br>o different Associated Loads from the previous year, assign CRC based on a value nominated by the Market Participant. | **Do not support**<br>We strongly oppose the proposal to allow DSPs to nominate their CRC value, considering that this would risk disingenuous applications that cause substantial volatility in the reserve capacity price and reliability forecast and thereby exacerbate investment uncertainty that is already a critical issue as the WEM transitions.<br>If implemented, this proposal should be accompanied by stringent accreditation requirements or penalties to prevent or disincentivise applicants from submitting speculative offers that are designed only to meet a capacity test, noting the much lower likelihood of DSPs being dispatched compared to other capacity types. |
| **Proposal H:**<br>Remove Consumption Deviation Applications (CDAs) from the assessment of DSP CRC. | **Support** |

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| **Proposal I:**<br><br>Allow sites with collocated load and generation or storage to be Associated Loads of a DSP. | **Support** |
| **Proposal J:**<br><br>Adopt a dynamic baseline to measure DSP dispatch performance against. Continue to assess the detailed dynamic baseline methodology.<br><br>Consider reducing the number of hours that DSPs can be dispatched. | **Do not support**<br><br>We do not consider that the proposal to reduce the maximum number of hours a DSP can be dispatched to be warranted nor supported by sufficient evidence to revert from the status quo which harmonised the availability requirements for Supply-Side and Demand-Side Capacity Resources (which was developed through significant and detailed consultation and analysis). By reducing the number of hours that DSPs can be dispatched, Alinta Energy considers that this could lead to an inefficient amount of DSP to enter the market and earn a substantive capacity income (compared to its fixed costs) while having very little risk of actually needing to perform. Thereby leading to the same issues experienced in the mid-2010s.<br><br>Alinta Energy considers that these fundamental issues associated with the treatment of DSP under the Market Rules warrant prompt further consideration with a view to ultimately ensuring unnecessary costs are not incurred. |
| **Proposal K:**<br><br>Require facilities holding flexible capacity credits to be tested for start, stop, restart, and minimum running times; ramp capability; and minimum stable loading level.<br><br>Allow facilities to pass flexible capacity tests by observation.<br><br>Require AEMO to schedule tests of flexible capacity characteristics to coincide with tests for peak capacity. | **In principle support**<br><br>Subject to the requirements for minimum running times; and minimum stable loading levels being further substantiated and supported by robust analysis and consultation prior to being set. |
| **Proposal L:**<br><br>Adjust Reserve Capacity Testing for DSPs to reflect a shift to a dynamic dispatch baseline. | **Do not support.**<br><br>We consider that testing should reflect the facility's accredited capacity, subject to ambient conditions, like other capacity types. |

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| **Proposal M:**<br><br>Amend the outage planning process so that AEMO considers availability of both peak and flexible capacity when assessing and approving outages. | **Tentative**<br><br>We question whether additional amendments are required to the criteria AEMO must consider when scheduling outages. We support AEMO having discretion to decide when to schedule outages and understand that overly prescriptive requirements are contributing to the current difficulty in generators scheduling outages, ahead of the new criteria being introduced in the new WEM. We encourage measures that would support AEMO using its discretion to permit outages proceeding where deferring would present a greater risk to supply in the short to medium term. |
| **Proposal N:**<br><br>Require flexible capacity holders to lodge outages relating to capability to provide flexible capacity. | **Tentative**<br><br>We question whether flexible capacity requires a separate outage regime, noting the additional complexity and our expectation that the instances where facilities are not able to provide flexible capacity but are able to provide peak capacity would be infrequent. |
| **Proposal O:**<br><br>Allow DSP owners to manage their own outage schedules, without participating in the outage planning regime.<br><br>Adjust DSP availability measurement to use actual demand of the Associated Loads rather than the Relevant Demand. | **Do not support.**<br><br>We are uncertain whether this would impact the reserve margins that are crucial to scheduled facilities being able to conduct outages.<br><br>If DSP availability measurements are adjustable, we would question whether they should refund Capacity Credits like Scheduled Generators where they are not able to provide their full capacity. |
| **Proposal P:**<br><br>Capacity refunds for both peak capacity and flexible capacity will be paid from a single pool of capacity payments.<br><br>Capacity refunds for flexible capacity will be capped at a set portion of total capacity revenues. | **In principle support** |

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| **Proposal Q:**<br><br>Calculate a dynamic refund multiplier for flexible capacity based on a comparison of the actual ramp requirement in the interval and the ramp rate used to set the flexible capacity Reserve Capacity Requirement (RCR).<br><br>Apply the greater of the peak and flexible multipliers to refunds for facilities supplying both capacity products.<br><br>Require AEMO to publish the projected load ramp rate alongside the load forecast. | **Tentative**<br><br>We question whether the additional complexity of a separate refund regime is required for flexible capacity as we expect low reserve conditions for peak capacity would typically coincide with low reserve conditions for flexible capacity and that the instances where facilities are not able to provide flexible capacity but are able to provide peak capacity would be infrequent. |
| **Proposal R:**<br><br>Amend the Maximum Facility Refund for DSPs to include the DSM Reserve Capacity Security.<br><br>DSPs which voluntarily surrender Capacity Credits during the Capacity Year will forfeit their DSM Reserve Capacity Security in proportion to the amount of the reduction. | **Support** |
| **Proposal S:**<br><br>Distribute collected capacity refunds to participants, responsible for loads, rather than other capacity providers. | **Do not support**<br><br>EPWA proposes to redistribute collected capacity refunds to loads rather than customers, considering that "the WEM is now projected to have a shortfall of capacity, resulting in the procurement of both SRC and NCESS to provide additional peak capacity, including to address potential fuel supply issues. If refunds continue to be distributed to generators, consumers (who pay for both SRC and NCESS) will pay more to receive the same level of reliability".<br><br>We recommend that EPWA considers whether retailers would redistribute any rebates to customers to offset the SRC or NCESS costs. If not, there may be little benefit to progressing any reforms to rebate allocations. We also strongly oppose the redistribution of collected capacity refunds and recommend that EPWA and the working group investigate other potential reforms to address this issue for the reasons below.<br><br>1. <u>EPWA's rationale incorrectly assumes that forced outages will be the sole cause of SRC and NCESS, and that all forced outages will cause additional SRC and NCESS costs or undermine reliability outcomes.</u><br><br>We recognise the ostensible unfairness of requiring customers to pay for SRC or NCESS that is caused by a forced outage, while refunds paid by the facility on outage are not used to offset this cost and are instead |

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| | paid to other generators. However, resolving this apparent issue by requiring all refunds to be paid to market customers implicitly assumes that all future SRC and NCESS will be caused by forced outages, and that all forced outages will contribute to SRC and NCESS costs and reduce reliability. We note that this assumption is incorrect:<br>o Only extended outages at the SWIS's coal-fired assets precipitated the need for SRC.<br>o Corrections to AEMO's forecasting and growing demand (not forced outages) appear to be the key potential contributors to SRC and NCESS costs over medium term.<br>2. EPWA's rationale assumes that retailers will pass-through the rebates to customers. This is not certain, as the WEM Rules do not regulate how retail rates are set, and many customers are on regulated rates.<br>We would question how the WEM Rules could ensure rebates are passed-through to customers, noting that:<br>o there is a disconnect between the real time, daily and weekly costs in the WEM and retail rates; and<br>o the WEM Rules do not cover retail rates and doing so would represent a much broader and complicated reform.<br>We also question how rebates would be made to uncontestable customers on regulated rates. Synergy may make a large windfall gain from the changes relative to other private-sector participants due to its franchise load.<br>We recommend that EPWA consider these issues before progressing their proposal as retailers not passing through the rebates would defeat the purpose of the reform - the collected refunds would not be used offset the costs of the SRC and NCESS, as envisaged by EPWA, meaning the changes to refund allocation would simply serve to increase retailers' margins.<br>3. The proposal has not been adequately interrogated, especially compared to the current arrangements, implemented in 2017.<br>The current arrangements received thorough (and protracted) consideration and consultation before being implemented whereas the proposal to repeal them has only been mentioned during a working group meeting, without an investigation of neither the affirmative nor the negative arguments.<br>o The current refund rebate regime was approved by the IMO through an extended rule change process.<br>o Then, the Minister considered that it was "consistent with the Wholesale Market Objectives" but rejected the reforms due to their potential timing conflict with the EMR and changes to the governance arrangements, which dissolved the IMO. |

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| | <ul><li>Finally, the arrangements were approved by the Minister, PUO and industry through the EMR, which included extensive consultation via working groups.</li></ul>4. <u>Re-allocating all rebates to customers would make the current refund regime excessively punitive for generators, especially given low reserves over the medium term.</u><br><br>Low reserve conditions increase multipliers, substantially increasing generators' potential refund costs where they experience a forced outage.<br><br>The current low reserve conditions also make it extremely difficult to schedule a planned outage, potentially leaving facilities no other option but to pay refunds while conducting crucial maintenance.<br><br>Redistributing rebates to facilities meeting the relevant availability requirements helps to balance these risks.<br><br>Removing them would disrupt this balance and make capacity investments in the SWIS significantly less certain – especially considering that low reserve conditions are forecast to persist given the challenge of matching supply to demand during the transition.[4] |
| **Proposal T:**<br><br>Amend the target EUE percentage in the second limb of the RCM Planning Criterion to 0.0002% of annual energy consumption. | **Do not support.**<br><br>We oppose this proposal considering that:<br><br>- the market has not been designed for the second limb of the planning criterion to bind. For example, capacity accreditation and its cost recovery is based on a peaking system and may not be fit for purpose where EUE sets the RCT.<br>- this measure is extremely conservative, being 3 times more conservative than the interim measure currently applied in the NEM, and it is not appropriate to assume the system would have such a high standard in the RLM.<br>- The rationale is not based on a value of customer reliability – it is an arbitrary level that is selected simply because it would be closer to binding ahead of the POE10-based target compared to the current EUE standard.<br>- The WEM is a small and a very 'peaky' system, making an EUE target less relevant – the capacity required to meet the peak is likely to keep EUE very low given our high peak relative to our average load. Hence why an the EUE standard must be excessively high to bind ahead of the POE10 target. If our load shape substantially flattens changes, the proposed EUE target may become too stringent.<br>- Per the forecast, it appears the proposed EUE is very unlikely to bind, meaning the only practical impact of the reform would be to the RLM. |

[4] The SWISDA forecasts that supply must increase by ~5 times by 2031.

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| | - We consider that the proposed EUE target is inappropriate to apply to the RLM.<br>o It assumes reliability will be higher compared to the SWIS forecast shortfalls over the medium term.<br>o It arbitrability and unnecessarily reduces the number of intervals used to calculate the capacity value of the fleet, meaning it will become more volatile for no commensurate benefits to the investment signals or accuracy of the model (like the Delta Method, which was rejected for similar reasons). Further, we consider the sample of periods used to test volatility is not large enough to give us confidence that more erratic fluctuations will not occur in future. |
| **Proposal U:**<br>The WEM Rules will continue to define the BRCP as the per MW capital cost of the new entrant technology with the lowest expected capital cost amortised over the expected life of the facility.<br>The Coordinator will review the appropriate reference technology for each capacity product and, consequently, the use of gross CONE or net CONE to set the BRCP, in 2024. | **Tentative**<br>We continue to oppose the possibility of net CONE pricing but recognise the proposal as a compromise, noting stakeholder feedback. |