ENPOWERED

20 October 2023

Energy Policy WA
Level 1, 66 St Georges Terrace
Perth WA 6000

By e-mail: EPWA-Submissions@dmirs.wa.gov.au

Dear Sir or Madam,

EXPOSURE DRAFT OF THE RCM REVIEW WHOLESALE ELECTRICITY MARKET AMENDING RULES

Thank you for the opportunity to provide our thoughts on the Exposure Draft of the Reserve Capacity Mechanism Review. We have outlined below some observations regarding the new rules for Flexible Capacity.

Flexible Capacity

We understand that payments for Flexible Capacity are intended to be incremental to payments for Peak Capacity on the basis that the Reserve Capacity Price (RCP) for Flexible Capacity will always be equal to or greater than the RCP for Peak Capacity.

Based on the current framework, we see that there may not be sufficient investment signals to incentivise investment in Flexible Capacity. In certain circumstances, facilities that can provide both Peak and Flexible Capacity may see the same pricing for Peak and Flexible Capacity, and elect to provide Peak Capacity only.

Looking at the two key components that factor into the Reserve Capacity Price:

1. **Benchmark Reserve Capacity Price (BRCP):** This is expected to be based on the same technology type for both Peak and Flexible Capacity. The Reserve Capacity Mechanism Working Group identified on 21 September 2023 that initially this will be 160MW of OCGT, shifting to 200MW / 800MWh lithium battery energy storage once the emissions threshold is introduced. Although there may be higher maintenance costs when providing flexible capacity, this is considered to be a variable cost component and therefore recovered separately from Capacity Credits, which aims to recover fixed costs only. Therefore, the BRCP is expected to be the same for Peak and Flexible Capacity.

2. **Reserve Capacity Price curve:** It has been proposed that the multiplier to the BRCP uses the same formula for both Peak and Flexible Capacity. Therefore, differences will only be due to the difference in surplus capacity available for Peak vs. Flexible Capacity. Both Peak and Flexible Capacity will be subject to the same parameters, and therefore will have the same cap of 1.3x.

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Based on current forecasts, it is possible that we could see a shortfall in Peak Capacity in the short to medium-term and the Peak RCP will be capped at 1.3x the BRCP. On the proposed price curve, the Flexible RCP would be equal to this and hence there will be no incremental revenue for a facility providing Flexible Capacity. Therefore, a facility may elect not to provide Flexible Capacity at all as it will impose additional operational requirements and obligations on it without additional revenue to compensate.

We recognise that there are other factors to be considered:

- Pricing is not finalised at the time that applicants apply to be certified for Reserve Capacity. However, the price of BRCP will be set and there will be information in the ESOO that provides a strong indication of where the RCP is expected to land. This will be particularly important when there is a shortfall in Peak Capacity being forecast and pricing is therefore capped at 1.3x BRCP.

- Participants providing Flexible Capacity may receive other concessions during operations as a result of providing Flexible Capacity as per Clause 4.12.5(g) of the WEM Rules. Whilst helpful, this may not be enough to properly incentivise a participant to take on the additional obligations.

We are therefore of the view that the Reserve Capacity price curve, which is used to determine the multiplier for the BRCP, should be reviewed for Flexible Capacity. Stronger price signals are required for Flexible Capacity beyond what has currently been proposed, as there may not be any incremental revenue available and therefore may not be sufficient incentives for a facility to participate in Flexible Capacity.

Thank you for consideration of our submission. If you wish to discuss this submission further, please contact me on jeremy@enpowered.com.au.

Yours sincerely,

Jeremy Huynh