

30 November 2023

Ms Dora Guzeleva
Director, Wholesale Markets
Energy Policy WA
Email: energymarkets@dmirs.wa.gov.au

Dear Ms Guzeleva,

Benchmark Reserve Capacity Price Reference Technology Consultation Paper

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission on the Benchmark Reserve Capacity Price (BRCP) Reference Technology Consultation Paper.

Energy Policy WA has requested feedback on three proposals that aim to ensure that the Wholesale Electricity Market (WEM) Rules provide sufficient incentives for investment in new capacity to maintain system security and reliability at an efficient cost to consumers.

AEMO's responses to each proposal are provided in Attachment 1. These views are based on the rationale stated in the consultation paper, noting that AEMO has yet to complete a full review of the modelling undertaken by Energy Policy WA. AEMO appreciates the opportunity to review this modelling and, following our review, we may provide further feedback.

AEMO looks forward to continuing to work with Energy Policy WA and the industry on the detailed design of the proposals and subsequent changes to the WEM Rules.

If you would like to discuss any matters raised in this submission, please contact Mena Gilchrist at mena.gilchrist@aemo.com.au.

Yours sincerely,



Kate Ryan

Executive General Manager – Western Australia & strategy

Attachment 1: AEMO's responses to the BRCP Technology Reference Review Consultation Paper Proposals



Attachment 1 – AEMO’s responses to the BRCP Technology Reference Review Consultation Paper Proposals

BRCP Reference Technology Review Consultation Paper proposals	AEMO comments and questions
Proposal A:	
<p>The BRCP reference technology type for both the Peak and Flex Services is a 200MW/800MWh lithium BESS connected at 330 kV. Consultation questions:</p> <ol style="list-style-type: none"> 1. Based on the analysis, do stakeholders agree with the proposed reference technology for the Peak Capacity product? 2. Based on the analysis, do stakeholders agree with the proposed reference technology for the Flexible Capacity product? 	<p>While AEMO has not yet completed detailed assessment of the modelling that underpins the proposals, AEMO supports the proposed changes to the BRCP reference technology being the lowest gross Cost of New Energy (CONE) value that meets the policy objectives. Notwithstanding, AEMO recommends further consideration of the treatment of battery cell replacement as a variable operating cost, which may under-represent the significant costs of cell replacements and associated balance of plant costs when assessing the BRCP. Further information on the treatment of battery costs and assets is set out in the Economic Regulation Authority’s Offer Construction Guideline¹, PJM Manual 15: Cost Development Guidelines², Lumen Energy Strategy’s CPUC Energy Storage procurement Study³ and Australian Accounting Standards Board Standard 116⁴.</p>
Proposal B:	
<p>The BRCP reference technology should be reviewed every 3 years. Consultation question:</p> <ol style="list-style-type: none"> 3. Do stakeholders agree with the proposed 	<p>AEMO supports the 3-year review obligation and would support consideration of more frequent reviews. More frequent reviews would be useful to capture when the BESS duration requirement starts and allow for a change of technology type if a more efficient storage or generation technology commercialises in the interim.</p>

¹ <https://www.erawa.com.au/cp/23568/2/-2023.MPMS---Guideline---Offer-Construction-Guideline.PDF>

² <https://www.pjm.com/~media/documents/manuals/m15.ashx>

³ [cpuc.ca.gov/~media/cpuc-website/divisions/energy-division/documents/energy-storage/2023-05-31_lumen_energy-storage-procurement-study-report.pdf](https://www.cpuc.ca.gov/~media/cpuc-website/divisions/energy-division/documents/energy-storage/2023-05-31_lumen_energy-storage-procurement-study-report.pdf)

⁴ https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPoet15_01-18.pdf

<p>frequency of BRCP reference technology reviews?</p>	
<p>Proposal C:</p>	
<p>Retain a gross CONE approach to BRCP determination.</p> <p>Consultation Question:</p> <p>4. Do stakeholders agree with the proposal to retain the gross CONE approach to BRCP determination?</p>	<p>AEMO supports the gross CONE approach to BRCP determination, which is lower than the net CONE approach, as outlined in the Consultation Paper modelling. A switch to net CONE may make sense in future years, once the impact of the peak and flex capacity pricing (and potentially other essential system services) have been seen in the market, as net CONE may help drive longer-term investment in storage.</p>