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RULE CHANGE NOTICE: SUPPLEMENTARY RESERVE CAPACITY AMENDMENTS (RC_2025_01)

Synergy welcomes the opportunity to provide feedback on the *Rule Change Proposal: Supplementary Reserve Capacity Amendments (RC_2025_01)* (**SRC Proposal**) submitted by Bluewaters Power (**Bluewaters**) and released for consultation on 21 October 2025.

Synergy is generally supportive of the high-level intent of the proposed rule change, however, considers that refinements are needed to minimise potential unintended outcomes. Synergy provides commentary on its main concerns below, along with further detailed comments on the proposed amendments to the Electricity System and Market Rules (**ESM Rules**) in Attachment 1.

1 INTRODUCTION OF POTENTIAL INCENTIVES FOR MARKET PARTICIPANTS TO PURPOSELY FAIL APPLICATIONS FOR CERTIFIED RESERVE CAPACITY (CRC)

1.1 Insufficient CRC Applications

The amendments proposed remove the restriction on a Market Participant from applying for Supplementary Reserve Capacity (**SRC**) whilst holding, or having held, capacity credits in the preceding two capacity years. Synergy supports allowing this capacity to seek SRC tenders where appropriate. However, historically the SRC price has been higher than both the Peak Reserve Capacity Price (**Peak RCP**) and the Transitional Reserve Capacity Price (**Transitional RCP**). This creates the potential incentive for Market Participants to fail their CRC applications so they could receive a higher SRC price.

Market Participants may intentionally fail to meet the requirements of the CRC application, instead holding out for potential, although likely, SRC tenders. For example, Market Participants may opt to not renew fuel supply contracts, not provide mitigants for recognised risks or undertake poor engagement with the Australian Market Energy Operator (**AEMO**) through the CRC process. Consequently, this may result in a greater degree of failed CRC applications, which in turn increases the need for SRC tenders. As such, Market Participants may have the ability to create demand for the higher priced SRC tenders and the opportunity for their facilities to be awarded a higher revenue contract.

1.2 Market Inequality

1.2.1 Operational Obligation Differences

Synergy notes that the obligations placed on a Market Participant with a successful SRC tender are significantly less onerous than the obligations that would have applied if the facility was instead awarded CRC. For example, Capability Class 1 Facilities are obligated to have fuel contracts which allow the facility to operate at full output for 14 hours per day. Additionally, certified facilities are required to be available throughout the year. On this basis, the facility would need to be offered into the Real-time Market (**RtM**) during its obligation periods and be

physically manned in order to comply with its cleared dispatch outcomes. This materially differs from the obligations applied to facilities under SRC contracts.

Synergy understands the most recent SRC tenders had an obligation period up to a maximum of five hours per day for four months of the year. Should a Market Participant no longer be concerned about failing their CRC application as they can re-apply for SRC, they may deviate from traditional operating models to a peaking plant operating model which may reduce their costs. Consequently, this may cause unintended strain on the system as Market Participants opt to seek reduced operating requirements and obligations for their facilities.

As such, Market Participants that provide genuine CRC applications are disadvantaged from a cost perspective as they are liable for a greater run time yet receiving a lower price per capacity made available.

1.2.2 Simplified Application Process

The CRC application process requires Market Participants to provide significant evidence that they can meet the obligations associated with being certified. For some Market Participants, this requires for ancillary contracts (such as fuel) to be executed in advance of when they otherwise could have been. As such, contracts entered at the earlier required time will be based on outdated assumptions that may not be reflective of their expectations at a date closer to the commencement date if they had the opportunity to negotiate contracts later.

Due to the short-term nature of SRC, its application process is reflective of the lighter requirements of participants which may further advantage Market Participants that choose to take the chance on pursuing SRC over traditional reserve capacity credits. This simplified process lends itself to potentially creating an unfair advantage for Market Participants that choose to take the risk to pursue SRC over genuine CRC applications.

2 PROPOSED MITIGANTS

2.1 Price Limit

Synergy suggests the risk mitigant outlined in the SRC Proposal, limiting applications only to rejected capacity credits in the relevant application period, may not effectively discourage Market Participants from holding out for the potential SRC tender. Where Market Participants may experience challenges in meeting a certification requirement in their entirety, they may be less incentivised to mitigate potential risks and engage with the AEMO to resolve issues, and instead seek a SRC tender which is less arduous and, likely, more profitable.

On this basis, Synergy suggests that to address the price incentive, the ESM Rules are further amended to limit the price a Market Participant receives for SRC under this eligibility. Synergy proposes that Market Participants who failed to secure capacity credits during the regular cycle but successfully secure accreditation under SRC have the price capped at the RCP they would have otherwise received for a successful CRC (being the Peak RCP or otherwise the Transitional RCP if the facility is a Transitional Facility). Synergy considers that by removing the additional financial incentive, Market Participants should be more inclined to make good faith CRC applications rather than seeking a SRC tender.

2.2 Reporting Obligations

Where a Market Participant has its CRC application rejected, Synergy suggests it should be required to provide evidence that it has rectified the issues from its previous application regardless of whether it is a requirement of the SRC application criteria. This allows for the

AEMO to be satisfied with the Market Participant's ability to provide support over the liable period whilst ensuring they have not intentionally failed the CRC application in order to qualify for SRC under this proposed rule change.

Should the Market Participant successfully receive a SRC contract, Synergy suggests an added measure to the above whereby the AEMO publishes the response report from the Market Participant so that other Market Participants have assurance that the application process and capacity system remains fair.

The combination of these elements assist in mitigating the risk that Market Participants may intentionally fail CRC applications to instead seek the less onerous obligations offered by SRC. Additionally, it creates a transparent process that will provide industry comfort that all Market Participants are providing genuine information through the CRC application process.

2.3 Ongoing Monitoring

Synergy suggests the AEMO keeps a detailed record of failed CRC applications that are then approved through the SRC process so that it may identify any trends in Market Participants' behaviour. Ideally, this would allow the AEMO to exclude Market Participants that are exploiting the process for financial and operational gains. The AEMO will be required to define a criterion where it assesses whether Market Participants are displaying repeated behaviour that may be considered dishonest for the purposes of Reserve Capacity Mechanism (**RCM**). Should the AEMO conclude that a Market Participant is displaying intentionally dishonest behaviour then they should have the ability to exclude their applications from future SRC tenders.

Through the reporting obligations suggested under heading 2.2, Market Participants will also have the opportunity to recognise patterns of behaviour and appropriately raise concerns with the Economic Regulation Authority (**ERA**) should they believe that there is dishonest behaviour.

3 SUMMARY

Synergy is generally supportive of the proposed rule change and understands the intention to allow more available capacity where the system requires it. However, Synergy considers that there must also be appropriate restrictions in place to mitigate against potential gaming by Market Participants.

Synergy thanks EPWA for this submission opportunity.

Yours sincerely



RHIANNON BEDOLA
MANAGER ELECTRICITY MARKETS

ATTACHMENT 1: PROPOSED AMENDMENTS TO THE ESM RULES

#	Rule Ref.	Issue	Suggestion
1	4.24.3(c)(ii)	The proposed drafting as provided in the SRC Proposal does not provide sufficient limitations on the eligibility criteria. This may allow Market Participants to intentionally fail their CRC application in preference for the opportunity to seek a SRC tender where they will likely earn a more favourable price. Synergy considers that an additional criterion should also be addressed. The proposed amendments include a reference to proposed clause 4.24.7(n), which creates an obligation for Market Participants to address the criteria failed under the CRC application.	<u>4.24.3(c)</u> ... ii. does not hold Peak Capacity Credits in the current Capacity Year and had applied for Certification of Reserve Capacity in year 1 of the current Reserve Capacity Cycle if the Energy Producing System was a Registered Facility in that year <u>subject to clause 4.24.7(n)</u> ; or ...
2	4.24.7(n)	Synergy proposes an additional sub-item is included under clause 4.24.7 as a mitigant for bad faith CRC applications. Synergy proposes Market Participants that qualify under the proposed 4.24.3(c)(ii) are obligated to provide rectification evidence for any criteria that led to the full or partial rejection of the relevant CRC application. (Note, the current ESM Rules clause 4.24.7 skips subclause item n).	<u>4.24.7.</u> ... (l) evidence that the Eligible Service will have access to a network for the contract period, where applicable; and <u>(n) where considered an Eligible Service under clause 4.24.3(c)(ii) evidence satisfactory to AEMO of the rectification actions taken to address the criteria the Eligible Service did not meet under clause 4.10.1; and</u> ...
3	4.24.8(cA)	Synergy considers the proposed drafting as outlined in the SRC Proposal may encourage Market Participants to intentionally fail all or part of their CRC application in preference to seeking a higher priced SRC tender. Synergy considers that to remove the price incentive, Market Participants should be limited to receive the RCP their facility would have otherwise been paid if it was instead to have achieved its full CRC.	<u>4.24.8.</u> ... <u>(cA) where the Supplementary Capacity Contract is to be offered to an Eligible Service subject to clause 4.24.3(c)(ii), the cost per MW is to be capped at the Reserve Capacity Price that would otherwise have been applied if the Energy Producing System was a Registered Facility holding Peak Capacity Credits in the current Capacity Year and had applied for Certification of Reserve Capacity in year 1 of the current Reserve Capacity Cycle.</u> ...