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Diversification

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Final Rule Change Report Supplementary Reserve Capacity Amendments (RC_2025_01)

Standard Rule Change Process

17 March 2026

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1. The Rule Change Proposal, Process and Timeline

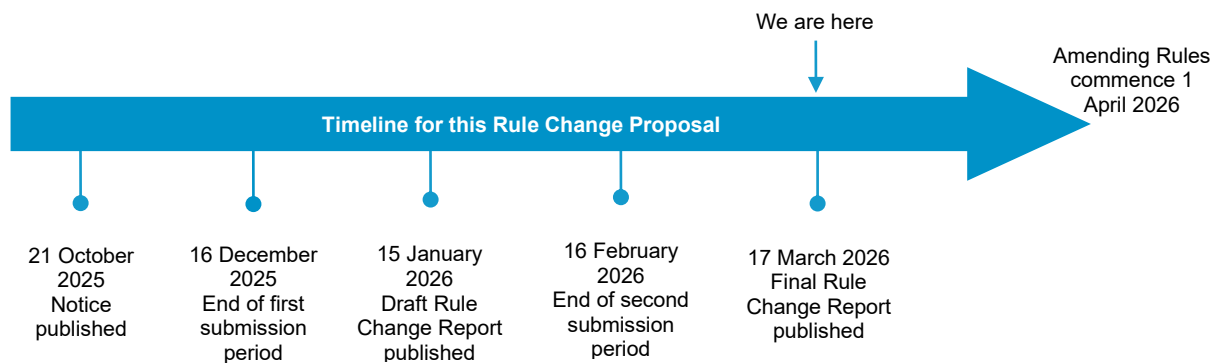
On 15 October 2025, Bluewaters Power (Bluewaters) submitted a Rule Change Proposal titled “Supplementary Reserve Capacity Amendments” (RC_2025_01).

Bluewaters’ Rule Change Proposal proposed a change to the sources of supplementary capacity¹ that are Eligible Services under clause 4.24.3 of the Electricity System and Market Rules (ESM Rules).

The Rule Change Proposal proposes a change to clause 4.24.3 of the ESM Rules to allow Registered Facilities that applied for certification in the current Reserve Capacity Cycle, but were not awarded Capacity Credits, to participate in the supplementary capacity process for the Capacity Year for which they were not awarded Capacity Credits.

The Rule Change Notice and all other documents related to RC_2025_01 can be found on the Coordinator of Energy’s (the Coordinator’s) website at Rule Change: RC_2025_01.

The key dates for progressing this Rule Change Proposal are:



This Final Rule Change Report is drafted under clause 2.7.7A(b) of the ESM Rules on the basis that the reader has read all the related documents, including RC_2025_01, the first period submissions, the Draft Rule Change Report and the second period submissions.

¹ In its ESM Rule Change Proposal Form for RC_2025_01, Bluewaters Power refers to Supplementary Capacity as Supplementary Reserve Capacity. It will be referred to as supplementary capacity for the remainder of this report.

2. The Coordinator's Decision

The Coordinator's final decision is to reject RC_2025_01.

To further mitigate concerns regarding gaming opportunities and taking into account feedback received during the second submissions period, the Coordinator has decided to remove clause 4.24.3(b) and the reference to Registered Facilities in clause 4.24.3(c) of the ESM Rules. This is to remove an incentive for Market Participants to de-register a Facility for the purpose of meeting the Eligible Services criteria to participate in the supplementary capacity process. These Amending Rules can be found in Section 8 of this report.

2.1 Reasons for the Coordinator's Final Decision

The Coordinator has made its final decision to reject RC_2025_01 on the basis that it is inconsistent with the State Electricity Objective (SEO). The Coordinator has made this decision considering stakeholder feedback received during the first and second submission periods, and the views of the Market Advisory Committee (MAC), including for the following reasons:

- The design of the Reserve Capacity Mechanism (RCM) is critical in incentivising reliable Reserve Capacity to enter the market through participants applying for certification to receive Capacity Credits. RC_2025_01 opens opportunities for capacity to exit the RCM and earn higher revenues through the supplementary capacity process, which was intended as an emergency mechanism.
- RC_2025_01 presents potential risks to system reliability, and the integrity and operation of the Wholesale Electricity Market (WEM), including those raised in stakeholder submissions and by MAC members:
 - While the Australian Electricity Market Operator's (AEMO) Reserve Capacity certification process is robust in assessing the ability of Facilities to reliably meet their Reserve Capacity obligations, RC_2025_01 presents a potential risk to reliability by:
 - Allowing Facilities that failed the Reserve Capacity certification process to apply for supplementary capacity in the same year for which they failed the certification process;
 - The potential for gaming, with some Market Participants purposefully failing certification and withholding capacity from the RCM; and
 - The potential for undermining the RCM incentives structures and creating reliability issues at other times of the year, outside of the Hot Season.
- RC_2025_01 presents a potential risk to the effectiveness of the supplementary capacity process as an emergency mechanism:
 - The current supplementary capacity settings have allowed AEMO to procure sufficient additional capacity to meet peak demand, while preventing gaming;
 - The difference in obligations between the RCM and Supplementary Capacity Contracts, and the overall transparency of each process, present a potential risk of market distortion; and
 - While the Reserve Capacity certification process requires AEMO to undertake an assessment of the Facility's capability to reliably meet its Reserve Capacity obligations, if RC_2025_01 is accepted a Facility could offer supplementary capacity despite failing this assessment by AEMO. This has the potential to erode the reliability contribution of supplementary capacity.
- RC_2025_01 has the potential to increase the costs to consumers:
 - The overall costs of supplementary capacity are higher than the cost of capacity with Capacity Credits for the level of reliability they deliver for consumers:

- Supplementary capacity costs consumers more than Reserve Capacity as it has higher availability and activation payments, while it is limited only to the Hot Season.
- RC_2025_01 may create an incentive for Market Participants to move away from a Transitional Reserve Capacity Price to more lucrative Supplementary Capacity Contracts, which will increase costs to consumers; and
- The potential for gaming the RCM would increase both the overall cost of Capacity Credits and the need for supplementary capacity, which would affect both the overall cost in the WEM and system reliability.
- Bringing back high emission technologies once they exit the market through the supplementary capacity mechanism is contrary to the SEO.
- The reviews of the supplementary capacity mechanism, undertaken in 2023 and 2024, and stakeholder feedback received during the reviews, indicated a clear preference to not change further the definition of Eligible Services.

The Coordinator has decided to make Amending Rules that closes a potential loophole in the supplementary capacity process. These Amending Rules were supported by the Expert Consumer Panel. The Amending Rules set out in section 8 of this Final Rule Change Report will:

- remove an incentive for Market Participants to de-register a Facility for the purpose of meeting the Eligible Services criteria in order to participate in the supplementary capacity process.

The detailed analysis behind the Coordinator's decision is provided in section 7 of this report.

2.2 Commencement

The Amending Rules contained in section 8 will commence at **8:00AM** on **01 April 2026**.

3. The Rule Change Proposal

3.1 The Proposal

This section provides a summary of RC_2025_01. The full Rule Change Proposal can be found on the Coordinator's website at [Rule Change: RC 2025_01](#).

On 15 October 2025, Bluewaters submitted a Rule Change Proposal (RC_2025_01) proposing a change to the Eligible Services for supplementary capacity under the ESM Rules.

Section 4.24 of the ESM Rules allows AEMO to seek to acquire supplementary Peak Capacity if, at any time after the day which is six months before the start of a Capacity Year, AEMO considers that there is a risk that adequate Peak Capacity will not be available in the South West Interconnected System (SWIS) to maintain Power System Security and Power System Reliability.

Currently, the production of electricity by Energy Producing Systems and load reduction are not Eligible Services allowed to participate in a supplementary capacity process if they have held Peak Capacity Credits in the current Capacity Year or the immediately preceding Capacity Year.

Therefore, a Registered Facility must wait for two years after holding Capacity Credits before becoming eligible to participate in the supplementary capacity process.

3.1.1 Issues the Proposal aims to address

Bluewaters considers that the exclusion of Energy Producing Systems and load reduction from the supplementary capacity process for two years before being eligible to participate is unnecessarily restrictive and reduces the pool of capable applicants.

Bluewaters contends that clause 4.24.3 of the ESM Rules currently prevents capacity, which may be able to contribute to supplementary capacity despite failing to receive Reserve Capacity certification in that Capacity Year, from applying.

Bluewaters considers that this reduces the volume of eligible capacity participating in the supplementary capacity process, decreasing the competitiveness of the process and increasing costs to consumers.

Bluewaters notes that AEMO has triggered the supplementary capacity process each year since 2022/23 and expects that AEMO will continue to do so as coal retirements and demand growth outpace the entry of new capacity.

Bluewaters contends that there are several reasons why a Facility may not have been awarded Peak Capacity Credits including:

- Network Access Quantity (NAQ) limits or network connection constraints;
- insufficient fuel availability for the full Capacity Year; or
- the inability to comply with all Reserve Capacity obligations.

Due to the shorter duration and more targeted nature of supplementary capacity, Bluewaters contends that these reasons are not a barrier to that Facility providing supplementary capacity and should not be limiting factor for participation.

3.1.2 Proposed Change

The Rule Change proposed by Bluewaters seeks changes to clause 4.24.3 of the ESM Rules to allow Registered Facilities that applied for certification in the current Reserve Capacity Cycle, but were not awarded Capacity Credits, to participate in the supplementary capacity process for the Capacity Year for which they were not awarded Capacity Credits.

The Rule Change Proposal is intended to increase eligible supply of supplementary capacity by allowing Energy Producing Facilities which failed to receive Capacity Credits to participate and

compete in supplementary capacity without the two-year waiting period. However, to prevent gaming the RCM against the supplementary capacity process, Bluewaters proposes that only capacity that applied for capacity certification, but was not certified, should be eligible to skip the waiting period.

3.2 The Coordinator's Initial Assessment of the Proposal

The Coordinator decided to progress RC_2025_01 on the basis that stakeholders should be given the opportunity to consider the proposal and make submissions through the Rule Change Process.

As none of the conditions for a Fast Track Process were met, the Coordinator progressed RC_2025_01 through the Standard Rule Change Process.

4. Consultation

In accordance with clause 2.7.8 of the ESM Rules, section 0 of this Final Rule Change Report summarises:

- the consultation with the MAC on RC_2025_01, and
- submissions made in the first and second submission period.

The Coordinator's responses to the views of the MAC, expressed following the publication of the Draft Rule Change Report, and to submissions received during the second submission period are detailed in Appendix A and Appendix B of this report.

Although a summary of these consultations is presented below, the Coordinator has considered each matter raised in its decision on RC_2025_01.

4.1 Draft Rule Change Proposal Process

Bluewaters did not make use of the informal Draft Rule Change Proposal Process to seek advice in developing RC_2025_01.

4.2 The Market Advisory Committee

Clause 2.4.3(aA) of the ESM Rules requires the Coordinator to consider any advice from the MAC regarding the evolution or development of the WEM or the ESM Rules. The MAC has not provided advice to the Coordinator regarding the evolution or development of the WEM or the ESM Rules that is relevant to the issue(s) addressed in RC_2025_01.

Clause 2.4.3(d) of the ESM Rules requires that the Coordinator considers any advice from the MAC regarding RC_2025_01. Clause 2.4.3(dA) of the ESM Rules requires the Coordinator to also consider whether the MAC reached a consensus view and, if not, to consider any dissenting views.

A summary of the consultation conducted with the MAC regarding this Rule Change Proposal prior to the publication of the Draft Rule Change Report can be found in section 5.2 of the Draft Rule Change Report.

The MAC first discussed RC_2025_01 at its meeting on 20 November 2025 and, following the publication of the Coordinator's Draft Rule Change Report, at its meeting on 11 February 2026.

The majority of MAC members provided their support for the Coordinator's draft decision, citing their concerns with potential gaming opportunities, long-term market certainty, the integrity of the RCM and the impact on costs. The key points raised by MAC members included that:

- Facilities moving from the RCM to supplementary capacity does not constitute an improvement to reliability of supply due to the differing obligations for each mechanism:

- Facilities participating in supplementary capacity have less accountability and reduced requirements than those in the RCM.
- a Facility moving from the RCM to supplementary capacity is not additive generation;
 - a Facility moving from the primary market mechanism, the RCM, reduces the Reserve Capacity available and could, therefore, require AEMO to procure supplementary capacity.
- allowing existing generation capacity that fails to be certified by AEMO for Certified Reserve Capacity (CRC) to apply for supplementary capacity, is contrary to the intended design of the RCM;
- addressing any gaming concerns necessitates monitoring, and extra effort and resources, that would lead to increased costs;
- certainty is important for current and prospective Market Participants to make investment decisions that extend over the three-year timeframe; and
- anything that disincentivises participation in the RCM potentially leads to emergency procurement processes, which undermines the RCM as the primary mechanism.

Two MAC members noted that they did not support the Coordinator's draft decision, citing the following reasons:

- RC_2025_01 would only lead to higher prices if gaming actually takes place;
- allowing Facilities that missed out on CRC to tender for supplementary capacity could potentially lower the cost of Supplementary Capacity Contracts through greater competition; and
- if supplementary capacity was needed, having access to additional Facilities would increase reliability of supply and therefore better address the SEO.

One MAC member considered that the gaming risks could be managed and that, if Facilities were not awarded CRC because of the NAQ allocations or due to fuel shortages but could prove their availability and capability for the Hot Seasons, this would increase the pool of potential suppliers and present an opportunity to decrease the costs of supplementary capacity.

Two members of the MAC did not comment.

While all MAC members were afforded an opportunity to make comment on RC_2025_01, the MAC was not asked to reach a consensus on RC_2025_01.

The MAC's discussion is included in the 11 February 2026 MAC minutes published on the Coordinator's website at [MAC meetings \(www.wa.gov.au\)](http://www.wa.gov.au).

Views raised by the MAC members and responses to these can be found in Appendix A.

4.3 The Coordinator's Response to the Market Advisory Committee

Section 6 and Appendix A of the Draft Rule Change Report provide the Coordinator's response to the MAC's advice that was provided at the 20 November 2025 MAC meeting (held prior to publication of the Draft Rule Change Report for RC_2025_01).

The Coordinator's response to the MAC's advice provided at the MAC meeting on 11 February 2026 (held after publication of the Draft Rule Change Report for RC_2025_01) is presented in Appendix A of this report.

4.4 Submissions Received during the First Submission Period

The first submission period for RC_2025_01 was held between 21 October 2025 and 16 December 2025. The Coordinator received submissions from:

- AEMO
- Change Energy
- Enel X
- Expert Consumer Panel (ECP)
- Shell Energy (Shell)
- Synergy

A summary of these submissions is provided in section 5.4 of the Draft Rule Change Report.

4.5 The Coordinator's Response to Submissions Received during the First Submission Period

The Coordinator's assessment of the issues raised in the first period submissions is presented in section 7 and Appendix B of the Draft Rule Change Report.

4.6 Submissions Received during the Second Submission Period

The second submission period for this Rule Change Proposal was held between 15 January 2026 and 16 February 2026. The Coordinator received submissions from:

- Expert Consumer Panel (ECP)
- Synergy

The ECP and Synergy's submissions both noted their strong support for the Coordinator's draft decision to reject RC_2025_01 on the basis that it is inconsistent with the SEO and noted their concerns regarding RC_2025_01, including with respect to the:

- effectiveness of the supplementary capacity process;
- impacts on the RCM;
- concerns with gaming; and
- cost implications and potential for market distortion.

The ECP strongly supported the Coordinator's decision to make Amending Rules to mitigate concerns regarding a potential gaming opportunity and suggested an additional change to remove clause 4.24.3(b) that was rendered unnecessary by the proposed Amending Rules.

The Coordinator has considered and agrees with the amendment proposed by the ECP. This is reflected in the final Amending Rules included in section 8 of this report.

The assessments by the submitting parties as to whether the Rule Change Proposal (RC_2025_01) would better achieve the SEO is provided below in Table 1.

Table 1: Comments on the State Electricity Objective from the Second Period Submissions

Submitter	State Electricity Objective Assessment
Expert Consumer Panel (ECP)	<p>Regarding Limb A of the SEO, the ECP notes:</p> <ul style="list-style-type: none"> • If all eligible Facilities contributed to the Reserve Capacity Requirement, AEMO would not be required to call for supplementary capacity. • The RCM is the primary mechanism through which Peak Capacity is sourced and has inbuilt settings to ensure Reserve Capacity prices reflect the level of certified capacity. • RC_2025_01 could incentivise capacity to fail the RCM certification process, extending the time it takes to ensure sufficient capacity is available through the RCM and leaving Reserve Capacity prices higher for longer than would be otherwise necessary. • RC_2025_01 could lead to reliance on the procurement of capacity through expensive alternative avenues such as supplementary capacity and Non Co-optimised Essential System Services (NCESS) procurements. • Market Participant’s focus should remain on ensuring sufficient Peak Capacity is secured via the RCM, reducing Reserve Capacity costs and avoiding the need for supplementary capacity procurement. • Any Reserve Capacity exiting the RCM would increase the risks faced by AEMO in dealing with contingencies, Network Constraints, Forced Outages and other challenges throughout the Capacity Year. <p>Regarding Limb B of the SEO, the ECP notes:</p> <ul style="list-style-type: none"> • Concern with the rapidly increasing costs to procure Reserve Capacity, especially over the coming Capacity Years. • RC_2025_01 may create an increased need for market intervention by AEMO, leading to increased costs to consumers. • Any Facilities moving from the RCM to Supplementary Capacity Contracts because of RC_2025_01 could likely increase market costs through increased prices both in the RCM and for supplementary capacity. <p>Regarding Limb C of the SEO, the ECP notes:</p> <ul style="list-style-type: none"> • Failure to be awarded Capacity Credits acts as a signal for existing Facilities to exit the WEM when they are unable to meet the requirements. This creates opportunities for more cost effective, efficient and reliable generation capacity to enter the SWIS. • RC_2025_01 could undermine this signal during a key period with the expected retirement of thermal generation and rapid transition toward zero-emissions technologies.

Submitter	State Electricity Objective Assessment
Synergy	<p>Regarding Limb A of the SEO, Synergy notes:</p> <ul style="list-style-type: none"> • RC_2025_01 risks creating incentives for Market Participants to purposely fail certification or withhold capacity from the RCM. • RC_2025_01 risks creating opportunities for Market Participants to benefit from the differences in obligations between the RCM and Supplementary Capacity Contracts. <p>Regarding Limb B of the SEO, Synergy notes:</p> <ul style="list-style-type: none"> • Market Participants moving from the RCM to Supplementary Capacity Contracts could lead to increased costs to consumers. <p>Regarding Limb C of the SEO, Synergy notes:</p> <ul style="list-style-type: none"> • RC_2025_01 may induce high emissions technologies that have exited the WEM to re-enter through a Supplementary Capacity Contract.

Copies of the submissions received during the second submission period are available in full on the Coordinator’s website.

4.7 The Coordinator’s Response to the Submissions Received during the Second Submission Period

The Coordinator’s overall assessment of the issues raised in the second period submissions is presented in section 6 of this report.

The Coordinator’s response to each of the specific issues raised in the second period submissions is presented in Appendix B of this report.

4.8 Public Forums and Workshops

The Coordinator did not hold a public forum or workshop for RC_2025_01.

5. The Coordinator’s Draft Decision

The Coordinator’s draft analysis of RC_2025_01 and its draft assessment of the proposal against clauses 2.4.2 and 2.4.3 of the ESM Rules is presented in section 7 of the Draft Rule Change Report, which is available on the Coordinator’s website.

The Coordinator’s draft decision was to reject RC_2025_01. The reasons for the Coordinator’s draft decision are set out in section 2.1 of the Draft Rule Change Report.

The draft Amending Rules are set out in section 8 of the Draft Rule Change Report.

6. Process of Assessment

In preparing its Final Rule Change Report, the Coordinator assessed RC_2025_01 against the requirements in clauses 2.4.2 and 2.4.3 of the ESM Rules.

Clause 2.4.2 states:

The Coordinator must not make Amending Rules unless it is satisfied that the ESM Rules, as proposed to be amended or replaced, are consistent with the SEO.

Clause 2.4.3 sets out the matters that the Coordinator must have regard to in deciding whether to make Amending Rules, including:

- (a) any applicable statement of policy principles given to the Coordinator under clause 2.5.2;
- (aA) any advice provided by the MAC regarding the evolution or the development of the WEM or these ESM Rules;
- (b) the practicality and cost of implementing RC_2025_01;
- (c) the views expressed in any submissions on RC_2025_01;
- (d) any advice by the MAC where the MAC met to consider RC_2025_01;
- (dA) whether the advice from the MAC provided under clause 2.4.3(d) reflects a consensus view or a majority view, and, if the latter, any dissenting views included in or accompanying the advice and how these views have been taken into account by the Coordinator;
- (e) any technical studies that the Coordinator considers are necessary to assist in assessing RC_2025_01; and
- (f) any advice or information provided by AEMO or a Network Operator under clause 2.4.3C.

When making its final decision, the Coordinator has had regard to each of the matters prescribed in clauses 2.4.2 and 2.4.3 as follows:

- the Coordinator's overall assessment of RC_2025_01 is presented in section 7;
- the Coordinator's assessment of RC_2025_01 against the SEO can be found in section 7.3;
- the Minister has not provided a statement of policy principles to the Coordinator in respect of RC_2025_01
- the Coordinator's assessment of the practicality and cost of implementing RC_2025_01 can be found in section 7.4;
- a summary of the views expressed by the MAC is in section 4.3 of this Final Rule Change Report and section 5.2 of the Draft Rule Change Report;
- the Coordinator's responses to the views of the MAC are provided in section 7 and Appendix A of this Final Rule Change Report, and in section 7 and Appendix A of the Draft Rule Change Report;
- a list of first period submissions is provided in section 4.4 of this Final Rule Change Report and a summary of first period submissions is in section 5.4 of the Draft Rule Change Report;
- the Coordinator's responses to the first period submissions are provided in section 7 and Appendix B of the Draft Rule Change Report;

- a summary of the second period submissions is provided in section 4.6 of this Final Rule Change Report;
- the Coordinator's responses to the second period submissions are provided in section 7 and Appendix B of this Final Rule Change Report;
- the Coordinator does not believe a technical study in respect of this Rule Change Proposal is required and therefore has not commissioned one.

7. The Coordinator's Final Assessment

7.1 The Supplementary Capacity Mechanism

7.1.1 Supplementary capacity

Supplementary capacity is procured and contracted for by AEMO when there are risks to system security and reliability in the upcoming Hot Season if:

- there is not sufficient Reserve Capacity to meet the Reserve Capacity Requirement and/or AEMO considers that demand is projected to be higher than the load forecast that was used to set the Reserve Capacity Target; or
- unforeseen circumstances mean that, despite the Reserve Capacity Requirement being met, additional capacity is required (e.g. because of Forced Outages or fuel supply issues).

Supplementary capacity must be additive capacity that otherwise is not available through the usual RCM process.

Procured supplementary capacity is then activated as a last resort after the dispatch of resources that hold Capacity Credits. The supplementary capacity process is an emergency mechanism, existing outside of the standard RCM process.

Supplementary Capacity Contracts may have alternative pricing arrangements² to the Reserve Capacity Price and are limited to the Hot Season – 1 December to 1 April.

Despite AEMO procuring Peak Capacity in line with the Reserve Capacity Requirement for the 2022-23 Capacity Year, issues with coal supply and the reliability of aging thermal generators, and stronger than forecast demand growth led to the supplementary capacity process being triggered for the 2022-23 Hot Season. AEMO has triggered the supplementary capacity process for every Hot Season since then.

Before the 2025-26 Hot Season, AEMO identified a shortfall of 142 MW and procured 141.15 MW of Availability and Activation Supplementary Capacity Contracts against this shortfall.

AEMO also procured an additional 30 MW of Activation Only contracts as a contingent supplementary capacity service.

7.1.2 Eligible Services for supplementary capacity

Supplementary capacity is provided by Eligible Services.

The definition of Eligible Services is designed to minimise the potential for providers of Reserve Capacity to withhold capacity from the RCM.

² Supplementary capacity contracts may be structured to include Activation payments or Activation and Availability payments. Payments are made at an Availability Price (\$/MW per day) or an Activation Price (\$/MW per hour).

Under clause 4.24.3 of the ESM Rules, electricity generation from an Energy Producing System that is a Registered Facility is not an eligible source of supplementary capacity if it has “held Peak Capacity Credits in the current Capacity Year or the immediately preceding Capacity Year”.

This means that an Energy Producing System that has held Capacity Credits is excluded from the supplementary capacity process for two years, before it is eligible to apply.

These restrictions are designed to ensure that Market Participants do not withhold capacity, that they would otherwise offer, from the RCM and were re-evaluated during the 2023 Supplementary Reserve Capacity Review. Several points relating to Eligible Services were considered including whether:

- the definition of Eligible Services was appropriate;
- any offers received were not for Eligible Services; and
- any capacity providers were excluded that should not have been excluded.

One of the final review outcomes was the relaxation of the definition of Eligible Services. The Coordinator removed the pre-existing permanent exclusion of services and implemented the two-year exclusion period. The intent of this was to provide adequate, but not excessive, safeguards against the potential risk that service providers may withhold capacity from the RCM to instead enter the supplementary capacity process³.

Neither during the process of that assessment nor during either submission periods for RC_2025_01 there has been feedback received that demonstrates that RC_2025_01 is necessary or that AEMO is currently unable to effectively procure sufficient supplementary capacity.

7.2 Assessment against the State Electricity Objective

In making its final decision, the Coordinator has assessed RC_2025_01 against the SEO.

The SEO was recently updated to keep pace with the rapidly transitioning power system and to adapt it to the integration of new technologies while having regard to the environment, including electricity sector emissions.

The SEO, under section 122 of the Electricity Industry Act 2004 is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity in relation to:

- (a) the quality, safety, security and reliability of supply of electricity; and
- (b) the price of electricity; and
- (c) the environment, including reducing greenhouse gas emissions.

The Coordinator has received no feedback during the second submission period to change his assessment that RC_2025_01 is inconsistent with the SEO as outlined below.

The quality, safety, security and reliability of supply of electricity

In RC_2025_01, Bluewaters’ contends that the current list of Eligible Services in clause 4.24.3 of the ESM Rules limits competition and prevents AEMO from accessing available capacity during tight supply periods.

In respect of the quality, safety, security and reliability of supply of electricity, the Coordinator considers that:

- AEMO’s Reserve Capacity certification process is robust in assessing a Facility’s ability to reliably perform against its Reserve Capacity obligations. Allowing Facilities that failed the

³ [src_review-stage2_information_paper.pdf](#)

certification process to apply for supplementary capacity in the same year for which they failed to certify undermines this process and the integrity of the RCM.

- If all eligible Facilities meet the certification requirements and contribute to the Reserve Capacity Requirement, AEMO would not be required to call for supplementary capacity (except in extreme circumstances, such as significant and prolonged Forced Outages, or emerging fuel supply issues).
- Supplementary Capacity Contracts operate over the Hot Season, which is the most critical period for system reliability. Allowing Facilities, which failed to be certified for reasons related to their reliability (e.g. fuel issues, high incidence of Forced Outages or NAQ availability) to participate in supplementary capacity, presents reliability risks.
- As noted, the definition of Eligible Services was amended in 2023 by removing the permanent exclusion of services and implemented the two-year exclusion period. This provides adequate, but not excessive, safeguards against capacity providers withholding capacity from the RCM to instead enter the supplementary capacity process.
 - Submissions received during the supplementary capacity reviews of 2023 and 2024 noted a preference to not further change the ESM Rules related to supplementary capacity due to the potential for detrimental effect on the WEM.
 - No stakeholder feedback has been received that demonstrates that AEMO is unable to procure sufficient supplementary capacity.
 - For the current Hot Season AEMO has met the required service level and has also procured an additional 30 MW of Activation Only contracts as a contingent supplementary capacity service.
- A key concern raised by stakeholders during the first submission period, was the need to prevent any opportunity for gaming. Gaming concerns were also raised by stakeholders during the second submission period.
 - Acknowledging that RC_2025_01 can present significant risks to the integrity of the RCM and the WEM, stakeholders proposed solutions to address any gaming risks.
 - Bluewaters, in its Rule Change Proposal also acknowledged the potential risk to gaming.
- The risks of potential gaming, with Market Participants withholding capacity by purposefully failing the certification process, can have a material impact on system reliability.
 - The potential for gaming could lead to Facilities with material size moving out of the RCM and into Supplementary Capacity Contracts to receive a higher price, reducing the level of capacity available through the RCM and compromising system reliability.
- The capacity provided by a Facility that moves from providing Peak Capacity via the RCM to providing Peak Capacity via the supplementary capacity process does not increase the available capacity in the market, that is, it is not additional capacity.
- Any rule change that might allow Market Participants to circumvent the RCM in favour of the supplementary capacity process presents reliability risk, as the RCM ensures that sufficient capacity is available throughout the Capacity Year.
- Reserve Capacity exiting the RCM would increase the risk faced by AEMO in dealing with contingencies, network constraints, Forced Outages and other challenges throughout the Capacity Year.
- Facilities with Supplementary Capacity Contracts are subject to less accountability and reduced requirements compared to those in the RCM.
 - Supplementary capacity providers have their rights and obligations governed by a contract with AEMO, rather than by the ESM Rules. This allows supplementary capacity to be

provided by parties that are not Rule Participants and means that the ESM Rules, obligations and requirements do not apply.

The price of electricity

In respect of the price of electricity, the Coordinator considers that:

- Supplementary capacity costs consumers more than Reserve Capacity as it has higher availability and activation payments, while it is limited only to the Hot Season.
- RC_2025_01 would provide Market Participants with opportunities to exit the RCM in pursuit of more expensive Supplementary Capacity Contracts, increasing the overall cost to consumers while reducing reliability.
- Recent experience with the price outcomes in the supplementary capacity processes, for different total quantities procured, suggests that there is no guarantee that RC_2025_01 would decrease the prices submitted by prospective suppliers or the overall cost of the Supplementary Capacity Contracts.
- The intent of RC_2025_01 is contrary to the purpose of the RCM, which incentivises investment in efficient capacity to ensure that the SWIS has the necessary capacity to meet electricity demand throughout the Capacity Year.
 - The RCM has financial disincentives for poor performance throughout the Capacity Year, with customers being compensated for that underperformance.
- Reserve Capacity exiting the RCM would reduce system reliability and increase the difficulty faced by AEMO in dealing with contingencies, network constraints, Forced Outages and other challenges throughout the Capacity Year. This would likely increase the need for market intervention by AEMO, increasing costs to consumers.
- Failure to be awarded Capacity Credits acts as a signal for existing capacity to exit the WEM and creates opportunities for more cost effective and reliable generation capacity to enter the SWIS.

Stakeholders noted that the proposed change will open an opportunity for Market Participants to receive more lucrative Supplementary Capacity Contracts, receiving higher prices with less operational responsibilities, while increasing oversight costs.

Stakeholders further noted that the proposed change could substantially increase costs to consumers as it would have the following cost implications:

- Market costs for both Supplementary Capacity Contracts and in the RCM would increase. If Market Participants were to leave the RCM to pursue Supplementary Capacity Contracts, they would receive higher payments for providing supplementary capacity (based on historical evidence).
- If Facilities were to move from the RCM to supplementary capacity, the resulting shortfall against the Reserve Capacity Requirement would increase the overall cost of Capacity Credits to the market. The need for additional supplementary capacity would also increase due to this shortfall of capacity, which would further increase market costs.
- The supplementary capacity procurement process commences only six months prior to the Hot Season. This puts AEMO in a disadvantaged position in negotiating with potential providers, as it cannot risk reliability and security of supply.
- Until 2031, most Market Participants are subject to a lower Transitional Reserve Capacity Price, and some may seek to use the proposed change as an opportunity to move from this into a Supplementary Capacity Contract. Market Participants moving from a Transitional Reserve Capacity Price would have a material cost impact.

The environment, including reducing greenhouse gas emissions

In respect of the environment, including reducing greenhouse gas emissions, the Coordinator considers that:

- There is a risk that less efficient, emissions intensive Facilities will be awarded Supplementary Capacity Contracts with the proposed changes. This is not consistent with the SEO as it would provide opportunities for high emission technologies to re-enter the market, if they have already exited due to a lack of fuel, lack of financial viability or other risks impacting their ability to meet Reserve Capacity obligations.
- RC_2025_01 could prolong the reliance on ageing thermal plant if capacity is failing certification in pursuit of Supplementary Capacity Contracts, potentially complicating decarbonisation and system transformation efforts by government and industry.
- Failure to be awarded Capacity Credits acts as a signal for existing capacity to exit the WEM and creates opportunities for more cost effective, efficient and reliable generation capacity to enter the SWIS.

The Coordinator notes the second period submissions received from the ECP and Synergy were strongly supportive of the Coordinator's draft decision to reject RC_2025_01 on the grounds that it is inconsistent with the SEO. Additionally, the majority of MAC members were also supportive of the Coordinator's draft decision.

While some MAC members considered that the draft Rule Change Report had assumed that potential for gaming may increase the cost to consumers, no evidence has been provided that RC_2025_01 will reduce costs to consumers.

The Coordinator has made its final decision to reject RC_2025_01 on the basis that it remains inconsistent with the SEO.

7.3 Cost and Practicality of Implementation

The Coordinator considers that, if RC_2025_01 was accepted, considerable monitoring and risk mitigation provisions and effort would be required to curb gaming opportunities, and that their implementation and operation are likely to be onerous and costly.

Although one MAC member considered that gaming risks could be managed, another MAC member noted that gaming did not actually need to occur for RC_2025_01 to increase market costs, and that the risk of gaming itself:

- would increase reporting obligations and require ongoing monitoring to identify potential gaming. This would require time and resourcing and increase the overall cost of these processes.

A further assessment of the cost and practicality implications of RC_2025_01 can be found in section 7.3, Appendix A and Appendix B of the Draft Rule Change Report.

The Coordinator's responses to the further cost and practicality considerations raised by the MAC or in second period submissions can be found in Appendix A and Appendix B of this report.

7.4 The Coordinator's Final Decision

Taking into account all stakeholder feedback, the Coordinator has made a final decision to reject RC_2025_01 on the basis of its assessment against the SEO outlined in the above section.

It is the Coordinator's assessment that accepting RC_2025_01 and allowing Facilities who failed certification by AEMO to provide supplementary capacity in the Capacity Year for which they were not certified presents considerable and unacceptable risks to reliability, costs and the environment.

To further mitigate concerns regarding gaming opportunities, the Coordinator is progressing Amending Rules to remove the reference to Registered Facilities in clause 4.24.3(c) of the ESM Rules and, in response to a stakeholder submission, the now redundant clause 4.24.3(b). This will remove an incentive for Market Participants to de-register a Facility for the purpose of meeting the Eligible Services criteria in order to participate in the supplementary capacity process.

7.4.1 Protected Provisions

The Coordinator final decision is to reject RC_2025_01, so this proposal will not impact any Protected Provisions.

7.4.2 Civil Penalty Provisions

The Coordinator final decision is to reject RC_2025_01, so this proposal will not impact any Civil Penalty Provisions.

7.4.3 Reviewable Decisions

The Coordinator final decision is to reject RC_2025_01, so this proposal will not impact any Reviewable Decisions.

8. Amending Rules

As indicated in section 7.4. of this Final Report, the Coordinator intends to make the following change to clause 4.24.3 of the ESM Rules.

- 4.24.3. The only eligible sources of supplementary Peak Capacity are the following services ("**Peak Eligible Services**"):
- (a) load reduction, that is measures to reduce a consumer's consumption of electricity supplied through the SWIS from that which the consumer would have otherwise consumed, but excluding reductions provided by a Market Participant with a Demand Side Programme that does not satisfy its Reserve Capacity Obligations during the current Capacity Year or did not satisfy its Reserve Capacity Obligations during the immediately preceding Capacity Year;
 - (b) ~~the production of electricity by Energy Producing Systems that are not Registered Facilities; and~~[Blank]
 - (c) the production of electricity by Energy Producing Systems ~~that are Registered Facilities~~, or load reductions provided by loads, but only to the extent that the electricity is generated, or the load reduction is provided, by capacity for which the relevant Market Participant:
 - i. does not hold Peak Capacity Credits in the current Capacity Year or has not held Peak Capacity Credits in the current Capacity Year or the immediately preceding Capacity Year; or
 - ii. provides evidence satisfactory to AEMO, prior to a Supplementary Capacity Contract taking effect, that:
 - 1. costs have been incurred to enable the provision of the capacity through the installation of physical equipment; and
 - 2. the capacity is in addition to the sent out capacity of the Energy Producing Systems, or the maximum amount of load that can be curtailed, that existed prior to the installation of the physical equipment.

The Coordinator has drafted the above Amending Rules to mitigate concerns regarding gaming opportunities.

Removing the reference to Registered Facilities in clause 4.24.3(c) of the ESM Rules eliminates a possible an incentive for Market Participants to de-register a Facility for the purpose of meeting the Eligible Services criteria.

During consultation on the Draft Rule Change Report, the ECP noted that this change may make clause 4.24.3(b) redundant as these Facilities would now also be covered by the language in clause 4.24.3(c). The Coordinator has considered and agrees with the suggestion and proposes to amend clause 4.24.3(b) of the ESM Rules to [Blank].

The Coordinator final decision is to reject RC_2025_01 and, therefore, no further Amending Rules are included here for implementation.

Appendix A. Responses to views of the Market Advisory Committee provided since publication of the Draft Rule Change Report

ID	MAC Member	Issue(s) raised	Coordinator's response
01	Synergy Mrs Bedola	Mrs Bedola provided support for the Coordinator's draft decision and noted that there are significant differences in the obligations placed on Facilities in the RCM and those governed by Supplementary Capacity Contracts.	Taking into account all stakeholders feedback received and the views of the MAC, the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.
02	Market Participant - Demand Side Programmes Mr Alford	Mr Alford provided support for the Coordinator's draft decision. Mr Alford noted that market stability, including investment certainty, is important to Market Participants. Mr Alford considered that because RC_2025_01 could impact Facilities exiting the RCM over a three-year time span and impact the mechanism itself, it runs contrary to overall market stability.	Taking into account all stakeholders feedback received and the views of the MAC, the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.
03	Market Participant - Scheduled Facilities Mr Arias (Mr Stephen concurred)	Mr Arias considered that in stating that costs would be higher to consumers if RC_2025_01 was progressed, that the assessment in the Draft Rule Change Report assumed that gaming had taken place. He considered that: <ul style="list-style-type: none"> if a Facility fails certification for CRC but is able to resolve the issues that led to its failure, allowing that Facility to tender for a Supplementary Capacity Contract may lower the cost of Supplementary Capacity Contracts through greater competition and having additional access to those additional Facilities better addresses the SEO than not having those facilities, increasing reliability of supply. 	<p>The Coordinator is responsible for the administration of the ESM rules and rule-making functions in the WEM and must consider the potential negative consequences of any change or set of changes to the ESM Rules. This includes consideration of how Market Participants, as profit-maximising competitive firms, may operate under the ESM Rules.</p> <p>The Coordinator acknowledges that additional capacity that reduces reliability risks or the cost of supplementary capacity would be beneficial.</p> <p>However, supplementary capacity must be additive capacity to that made available through the usual RCM processes.</p>

ID	MAC Member	Issue(s) raised	Coordinator's response
			<p>RC_2025_01 proposes to allow existing generation capacity that failed Reserve Capacity certification to apply for supplementary capacity.</p> <p>As supplementary capacity is procured and used as a last resort, it is crucial that Facilities being awarded Supplementary Capacity Contracts are reliable. Allowing Facilities that failed the certification process to apply for supplementary capacity in the same year for which they failed to certify undermines this process and the integrity of the RCM.</p> <p>As the SWIS is an isolated system, the ESM Rules must be designed to ensure sufficient capacity is always available to service demand. The Coordinator has assessed the impact of RC_2025_01 against the SEO and, in doing so, has considered the impact of RC_2025_01 on the RCM, the SWIS reliability, costs to consumers, and the environment.</p> <p>It is the Coordinator's assessment that accepting RC_2025_01 and allowing Facilities who failed certification by AEMO to provide supplementary capacity in the Capacity Year for which they were not certified presents considerable and unacceptable risks to reliability, costs and the environment.</p>
04	<p>Small-Use Consumer representative</p> <p>Mr Skinner</p>	<p>Mr Skinner noted his support for the Coordinator's draft decision. He noted that he does not consider a Facility moving from CRC arrangements to a Supplementary Capacity Contract to be an improvement to reliability, due to differing obligations; with Supplement Capacity Contracts being shorter duration and less onerous. He notes that it is not additive generation, rather a pre-existing Facility.</p>	<p>Taking into account all stakeholders feedback received and the views of the MAC, the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.</p>

ID	MAC Member	Issue(s) raised	Coordinator's response
		<p>Mr Skinner noted that gaming does not actually need to occur for RC_2025_01 to increase market costs, as any gaming concerns require attention and extra administrative work by AEMO and the ERA to ensure that it is not occurring. These efforts would lead to increased Market Fees increasing costs for Market Participants.</p> <p>Mr Skinner considered that the concerns outlined in the Draft Rule Change Report pertaining to costs were based on those experienced in past Supplementary Capacity Contracts.</p>	
05	<p>Market Participant - Semi-scheduled Facilities</p> <p>Mr Flynn</p>	<p>Mr Flynn provided his support for the Coordinator's draft decision but considered that potential gaming risks could be mitigated, suggesting that mechanisms could be put in place to eliminate or dis-incentivise that risk, for example by ensuring that there were lower returns for Market Participants who were previously held CRC and were now tendering for supplementary capacity.</p>	<p>The Coordinator considers that, if RC_2025_01 was accepted, considerable monitoring and risk mitigation provisions and effort would be required to curb gaming opportunities, and that the implementation and operation of this is likely to be onerous and costly. This is one of the reasons the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.</p>
06	<p>Market Participant - Sells, or intends to sell, electricity to customers</p> <p>Mr Gaston</p>	<p>Mr Gaston noted that he felt that the gaming risks presented by RC_2025_01 could be managed through appropriate regulatory guardrails. He also noted that if there is an opportunity to lower the cost of supplementary capacity by increasing the pool of generators who can apply, that the cost of supplementary capacity could be decreased.</p> <p>Mr Gaston acknowledged that if generators were failing CRC because of NAQ or a fuel shortage, they would need to prove availability and capability for the Hot Season.</p>	<p>The Coordinator considers that, if RC_2025_01 was accepted, considerable monitoring and risk mitigation provisions would be required to curb gaming opportunities, and that their implementation and operation are likely to be onerous and costly.</p> <p>As the supplementary capacity process is required when the SWIS reliability is at risk and is undertaken with limited time for AEMO to negotiate contracts, there is no guarantee that the inclusion of Facilities, which failed certification, into that process will decrease the price of Supplementary Capacity Contracts.</p>

ID	MAC Member	Issue(s) raised	Coordinator's response
			<p>AEMO's Reserve Capacity certification process is robust in assessing a Facility's ability to reliably perform against its Reserve Capacity obligations. Allowing Facilities that failed the certification process to apply for supplementary capacity in the same year for which they failed to certify undermines this process and the integrity of the RCM.</p> <p>The Coordinator considers that, if a Facility failed the certification process or received a reduction to its CRC due to either network or other constraints, those constraints would be unlikely to have been resolved by the time supplementary capacity was required.</p>
07	AEMO Ms Tait	Ms Tait noted AEMO is supportive of the Coordinator's draft decision, noting that anything that even inadvertently disincentivises participation in the RCM potentially drives people towards the emergency procurement processes which is not AEMO's preferred course of action.	Noted. Taking into account all stakeholders feedback received and the views of the MAC, the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.

Appendix B. Response to Submissions Received in the Second Submission Period

ID	Submitter	Issue(s) raised	Coordinator's response
01	Expert Consumer Panel	<p>The ECP noted their strong support for the Coordinator's draft decision to reject RC_2025_01 on the basis it is inconsistent with the SEO, they also noted the Coordinator's concerns and responses in regard to the:</p> <ul style="list-style-type: none"> • effectiveness of the supplementary capacity process; • impacts on the RCM; • concerns with gaming; and • cost implications and potential for market distortion. <p>The ECP also strongly supported the Coordinator's proposal to remove the reference to 'Registered Facilities' in clause 4.24.3(c) of the ESM Rules, considering it to be a sensible proposal to mitigate concerns regarding a potential gaming opportunity. The ECP proposed additional changes to the proposed Amending Rules.</p>	<p>Noted. The Coordinator has considered the ECP's suggested changes and has made further amendments to the proposed Amending Rules contained in section 8 to reflect this.</p>
02	Synergy	<p>Synergy supports the Coordinator's draft decision and considers that if progressed, RC_2025_01 could have the potential impacts, including creating:</p> <ul style="list-style-type: none"> • incentives for Market Participants to purposely fail certification and withhold capacity from the RCM; • opportunities for Market Participants to benefit from reduced, less strict obligations in the supplementary capacity process over those in the RCM; • increased costs to consumers; and • incentives for high emissions technologies that have exited, to then re-enter the WEM. 	<p>Noted. Taking into account all stakeholders feedback received and the views of the MAC, the Coordinator final decision is to reject RC_2025_01 on the basis that it is not consistent with the SEO.</p>

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