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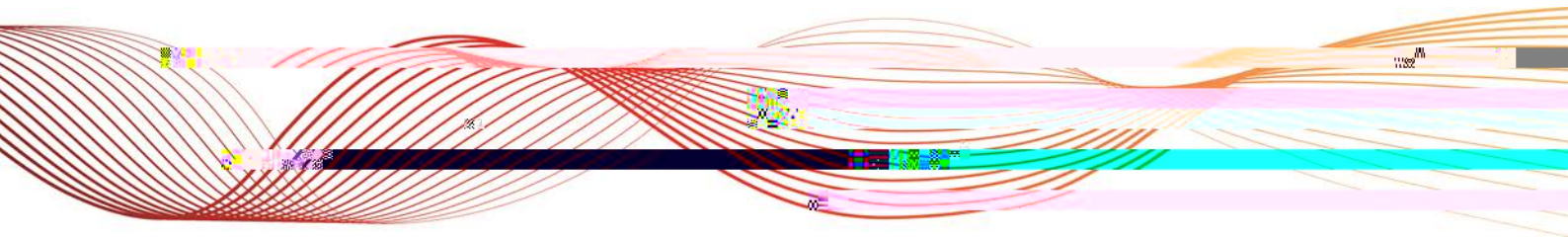
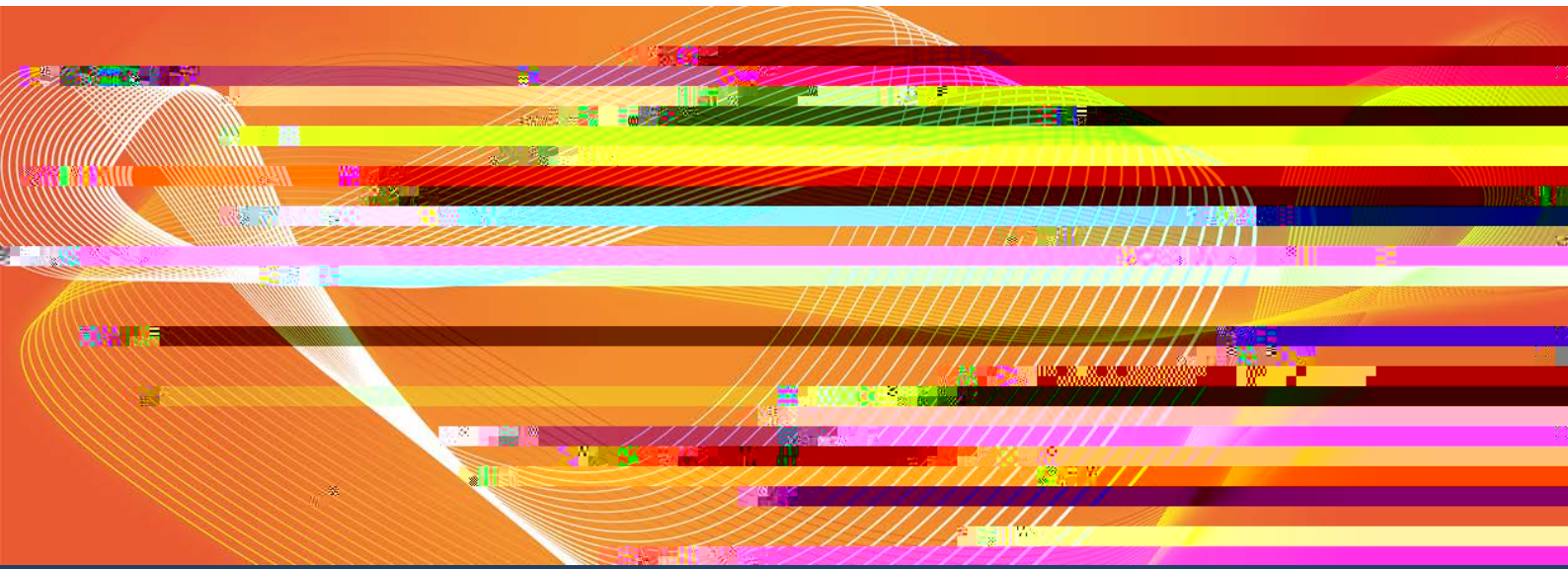
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Dear Dr Challen

**SUBMISSION TO THE ELECTRICITY MARKET REVIEW POSITION PAPER ON
REFORMS TO THE RESERVE CAPACITY MECHANISM**

**asto the Reserve Capacity Mechanism (RCM) better reflect the
capacity in the South West interconnected demand to better achieve
Objectives**







1. INTRODUCTION OF A CAPACITY AUCTION

The Position Paper proposes to implement a three year ahead, single sealed bid capacity auction in place of the current administered price mechanism.

A capacity auction with suitable transitional provisions would meet the reform objectives and principles outlined in the Position Paper² and incentivise the introduction or retirement of capacity in the WEM in an economically efficient manner.

AEMO supports the adoption of a capacity auction in principle as it would realign the funded capacity with the efficient quantity needed to reliably meet demand in the SWIS. However, under the proposed arrangements an auction would not be triggered in the medium-term.

Given the significant uncertainties in the market, AEMO is concerned that a trigger based on a particular level of excess capacity creates risks both to customers and suppliers and may prevent private investment in efficient energy sources. The proposed option creates uncertainty as to when the trigger might be reached. Estimating the actual time when auctions will commence will be very difficult for participants and will be exacerbated by renewable uptake, forecasting risk, market manipulation opportunities and the reliance on facility retirements.

Furthermore, if a capacity auction is implemented AEMO considers that it should remain technologically neutral in order to competitively source capacity at the lowest cost to the market and consumers.

AEMO notes that the design of an auction mechanism would also be dependent on the energy market

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AEMO also notes that a trigger based on the level of excess capacity could be exposed to market man







3.6 Implementation

AEMO notes that the operation of the proposed changes will need to be considered in more detail before it is able to provide an estimate for the costs or time required to implement the proposed changes to the treatment of DSPs.

4. INTRODUCTION OF STRONGER COMMERCIAL INCENTIVES FOR DISPATCH

The Position Paper proposes to implement a number of previously proposed rule changes to introduce a more dynamic refund regime, recycle refunds to capacity providers rather than customers, and improve the incentives for scheduled generators to be available for dispatch.

AEMO supports the proposed changes as these proposals will better incentivise capacity to be available during system peaks and will improve incentives for participants to operate efficiently in the energy market.

