

Purpose of the RCM and Defining System Stress

s purpose is to ensure there is sufficient generation capacity available within the SWIS to maintain a pre-defined level of reliability. The reliability requirements of the WEM may change over time with the generation transition to net zero

5. Synergy agrees that a product should not be created within the RCM to address minimum demand, however further consideration is needed on the proposal to *ly* add to minimum load issues as this will likely add further complexities to the RCM design.

The P *with high minimum stable generation, and/or long start-up, minimum running or minimum restart times*

to be able to incorporate this into the RCM, it becomes difficult to define what each of these attributes are and what values are acceptable or not. Further, Synergy notes

is *flexible capacity*

RCM and preference facilities that can meet the flexibility requirements should be adequate to address this concern.

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Benchmark Reserve Capacity Price

The revenues available to facilities under the RCM is of critical importance as it is one of only three revenue streams available to facilities in the WEM. Synergy notes that the revenues from the RCM are the only existing means of revenue certainty as a facility is not tied to dispatch outcomes. The capacity price paid to facilities for providing capacity, the Reserve Capacity Price (**RCP**), varies year on year and is determined as a function of the Benchmark Reserve Capacity Price (**BRCP**) and the capacity supply and demand position.

With the proposed introduction of the new flexible capacity product into the RCM,

- b. Additional costs incurred by facilities to meet the obligations associated with the Certification of Reserve Capacity that are above the reasonable expectations of dispatch requirements, such as the premiums incurred for contracting gas and supply and transport above expected dispatch outcomes.
2. Facilities that are providing the flexible capacity product may have a different life expectancy due to the different dispatch expectations. Noting that an ESR that is available peak capacity product is likely to have limited degradation in comparison to an ESR that is providing the ramping service required for the flexible capacity product. Synergy notes that even when the reference technology is the same for both BRCPs, the facility life is likely to differ.
 - a. Synergy notes that there may also be differences in the expected facility life for each of the Capability Classes which may eventually need to be accounted for to ensure the right incentives are provided for each Capability Class.
3. The potential for network constraints and lower NAQs for the reference technology needs to be considered and modelled. The Paper suggested that it could be assumed that the new facilities locate in unconstrained locations, however this assumption needs to be verified against the actual network constraints and locations.
4. Swapping from a Gross Cost of New Entry (**CONE**) approach to a Net CONE approach is a complex task and extreme caution will be needed to ensure the approach and assumptions are sound;
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5. Synergy supports the proposal that the capacity price applied to facilities that meet the requirements of both the peak and flexible capacity products is set at the higher of the RCPs and that the facility can - ice. However, Synergy suggests that a five-year lock-in period may not provide sufficient revenue certainty (for both the peak and flexible capacity products) and should be reviewed. Robin (RBP - three to twenty years.⁶

Capacity Certification

Synergy is supportive of the replacement of the current Availability Classes with Capability Classes that consider the firmness as well as duration of supply at a high level. However, the details of the Capability Classes requires further assessment and refinement in stage 2 to ensure they are fit for purpose and encourage an appropriate mix of firmness and duration in the WEM. Additional consideration is also needed as to the appropriate technologies for each Capability Class. For example, although a distillate fired Open Cycle Gas Turbine (**OCGT**) can technically be dispatched for a longer duration (provided it has enough on-site fuel, and sufficient re-supply provisions), dispatch by distillate-fuelled facilities for long durations is unlikely to result in the lowest cost market outcomes.

The facilities in the different Capability Classes are providing different levels of reliability and mitigating different reliability concerns, noting that Capability Class 1 facilities will be able to mitigate against the duration gap in addition to the system peak, whereas Capability Class 2 only mitigates against the system peak. This again highlights the need to ensure that there is revenue adequacy (in total from the WEM) to incentivise investments in the desired mix of capabilities. Synergy notes that the reference technology used for the BRCP is a distillate fired OCGT, which may be a valid benchmark for the peak capacity product, however it is less ideal to use as benchmark for facilities that provide longer duration capacity.

Synergy seeks clarity as to the reasoning for the proposed change to the methodology for

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participants while providing limited value to customers.

Capability Class 1

The current application of the 14-hour fuel obligation does not align with the original intent of the obligation which was *to ensure that liquid fuelled facilities had sufficient onsite fuel to operate for 4-5 hours a day for three days, without resupply*. Under the current application of the 14-hour obligation, in order to be certified for capacity, gas fuelled facilities are required to enter into a highly contracted fuel supply position that is excessive when compared to their reasonable expectations of dispatch. Further, Synergy is of the understanding that gas suppliers are requiring take-or-pay contracts for the majority of the contracted supply. This imposes significant costs on gas facilities that are currently not recoverable under the RCM.

Synergy strongly advocates that the 14-hour fuel obligation and its implementation is further assessed in stage 2 to ensure that the obligations and duration requirements placed on facilities in Capability Class 1 are reasonable. In addition, the revenues for Capability Class 1 need to be appropriate to encourage efficient investment in facilities that can provide firm, longer duration capacity, which will be increasingly important

RLM be replaced with a more appropriate methodology in the RCM Review. Synergy supports replacing the current RLM and agrees that the new methodology should seek to:

reflect the expected dispatch in system stress periods;

incentivise locational diversity for new projects; and

minimise year on year volatility in CRC values to provide investment certainty.

In addition, the methodology should attempt to limit the impact of future facilities on the CRC for existing intermittent generation, noting that Network Access Quantity (**NAQ**) regime and the CRC methodology should work together to encourage intermittent generation to locate in network locations that provide the best value to the WEM.

As noted in the Paper, as the WEM is very peaky and has limited history of system stress events, the results of the

Synergy does not support the proposed changes to clause 4.11.1 to require AEMO to reduce the CRC for facilities with higher outage rates than the level prescribed within the clause. The certification process for capacity is forward looking and should therefore allow consideration of expected performance in the future. Synergy does not consider that being prescriptive under this clause provides benefits to the market and may unintentionally lead to future over proc

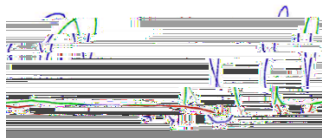
the issue has been rectified. In addition, with the NAQ regime, if the facility is in a constrained network location, the facility may be unable to earn back any lost CRC if the original NAQs are no longer available. This is an inappropriate penalty if the issues with the facility have been rectified. Once the CRCs are performance if its CRC (and Capacity Credits) are permanently de-rated.

This measure will unfairly impact upon selected technologies and longer duration facilities that run more often. These facilities are already incentivised to perform under the existing WEM Rules. The design of the current refund regime is such that the penalties for forced outages are higher when system stress is more likely to occur (i.e. when there is limited available capacity above the demand requirements, which ensures that facilities, regardless of technology are fairly penalised based on the additional system stress that the outage caused.

Conclusion

Synergy appreciates the opportunity to provide comment on the RCM Review stage 1 report and looks forward to continuing to work with EPWA and members of the RCM Review Working Group to undertake this review.

Yours sincerely



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