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Dear Energy Policy WA

CONSULTATION COST ALLOCATION REVIEW

Synergy welcomes the opportunity to provide comment on Energy Policy WA's (**EPWA**'s) *Cost Allocation Review Consultation Paper* (**Paper**) regarding proposed changes to the allocation of Market Fees and Essential System Services (**ESS**) costs to Market Participants in the Wholesale Electricity Market (**WEM**). It is noted that EPWA intends to publish an Information Paper and Amending WEM Rules for consultation, based on the proposals contained in the Paper.

Synergy's comments on the Paper are provided below.

Market Fees

The Paper proposes retaining the current method of allocating Market Fees based on metered generation or loads (Grid MWh) and that the primary objective of Market Fees is cost recovery. Synergy agrees with this approach as outlined in Proposal 1(a), noting the limited efficiency benefits of implementing a new WEM Hybrid Method for allocating Market Fees.

However, it may be worth considering the possibility that some Market Fees borne by Market Participants are due to non-Market Participant queries. Such queries may relate to potential entrants, market training expressions of interest, and Certified Reserve Capacity applications from potential new entrants. Although we note that the Australian Market Operator (**AEMO**) is not conducting this review, it may be relevant for AEMO to consider how these fees paid by Market Participants can be minimised.

Synergy agrees in principle with ignoring recharge energy in Proposal 1(b), preventing storage facilities from being allocated fees twice. However, further consideration is needed as to how this proposal will work for hybrid facilities, and if the treatment for hybrids will differ depending on the facility structure (metering, aggregation etc). Synergy notes that caution needs to be used to ensure that equitable treatment is applied to all Market Participants and Facility types.

Frequency Regulation

Proposal 2 seeks to address inefficiencies in the current method of recovering Frequency Regulation costs. It is understood that two implementations – for the WEM Deviation Method and the NEM Causer-Pays Method – and two implementation and trial periods for the respective methods are proposed. Presently, the expected costs of implementation for each of the methods are unable to be considered by Market Participants, and a cost-benefit analysis is yet to be completed for the WEM Deviation Method. We anticipate that AEMO will be providing additional clarity regarding expected implementation costs in the next stage of the review. On this basis, it is suggested that further investigation of both methods is undertaken before a decision is made favouring one over the other, and suggests that this is likely to be cost saving benefits of implementation only one method rather than implementing one to be later replaced with the other.

Whilst we are unable to consider the implementation costs of these methods, we provide the following comments for EPWA's consideration:

> The Paper suggests that adopting alternative approaches to allocating Frequency Regulation costs may provide incentives for retailers and aggregators to encourage installation of behind the meter (**BTM**) batteries and reduce future Regulation Raise requirements. This outcome may work for aggregators. However for normal loads, the BTM battery needs to be incentivised to operate in a way to minimise load variations. Effectively this will need to be done by regulated tariffs, and is a decision that will require consideration of the Minister's position on retail tariff price setting.
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> The WEM Deviation Method involves calculating a linear ramp between dispatch targets matching 4-second SCADA data. It is understood that the method uses a hypothetical linear dispatch target, however we query whether using a linear dispatch target is appropriate for modelling, as ramping is not typically linear. Additionally, the proposed method calculates and aggregates coefficients of variation for plant and

Contingency Reserve Raise

Proposal 3 introduces a modified runway method to apply in instances where a Facility comprises multiple units, each with a separate network connection. This method intends to promote reduced risk associated with a Facility comprised of multiple units. Synergy supports the intent of this Proposal, and considers that AEMO should only apply this method for facilities where units are truly operated independently of each other.