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Energy Policy WA

Submitted via: energymarkets@dmirs.wa.gov.au

RCM Review Information Paper (Stage 1) and Consultation Paper (Stage 2)

We appreciate the opportunity to provide feedback on the second consultation paper of the RCM review.

We strongly support strengthening incentives in the RCM for the capacity required to achieve the State's net zero emissions targets and maintain reliability, considering the inadequacy of the current revenue streams,¹ and the need for significant investment both imminently and for the remainder of the decade to maintain reliability.²

While we support most of the design proposals and review outcomes outlined in the paper, we have material concerns that:

- The proposal to redistribute capacity refunds to retailers is based on flawed assumptions that all forced outages contribute to the need for SRC and NCESS, and that retailers will pass through the re-allocated rebates to their customers. We consider that this proposal would not offset the costs of SRC and NCESS as hoped and would instead provide Synergy a windfall gain, as the retailer to uncontested customers. It may also undermine incentives to invest, noting that the proposed redistribution would prevent generators from earning rebates via strong performance at a time where persistent low reserve conditions are increasing refund multipliers and making it extremely difficult for generators to secure planned outages.
- The excessively generous terms proposed for DSPs, including the plans to allow them to select their own CRC, would create an uneven playing field and may cause exploitative applications. This could distort the efficient signals for DSPs, increase the volatility of the capacity price, undermine reliability, and lead to an oversupply of DSP capacity at the expense of consumers (similar to the issues which led to the current arrangements that pared back the allowances for DSPs through the early stages of the EMR). It is vital that DSP is appropriately compensated commensurate with its benefits to the system and underlying cost structures and we do not consider the current proposal achieves this.
- Setting an extremely conservative of EUE target of 0.0002% will unnecessarily restrict the determination of the intermittent generator fleet capacity value to very few intervals, needlessly increasing its volatility and undermining incentives to invest.
- Retaining the 14-hour fuel requirement has not been adequately justified. We consider that this may unnecessarily increase procurement costs to potentially extreme levels as a shortfall in domestic gas supply is predicted. It may also create an uneven playing field



Alinta Energy's comments on each of the design proposals is contained in attachment 1.

Thank you for your consideration of our submission. If you would like to discuss further, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Oscar Carlberg', is written over a series of horizontal lines, likely a signature strip or a set of lines from a form.

Oscar Carlberg
Wholesale Regulation Manager

Review Outcome 3

A new flexible capacity product will be introduced to the RCM. The Planning Criterion will include a third limb requiring AEMO to procure flexible capacity to meet the size of the steepest operational ramp expected on any day in the upcoming Capacity Year from either the 10% or 50% POE load forecasts.

Support, with caution

While we support the concept in principle. However, we caution that the proposed flexibility product may bring significant complexity and implementation costs, noting that it effectively sets up a new RCM. Given this we recommend that:

Further consideration is given to whether this product is necessary and will precipitate a higher price compared

Review Outcome/ question

Alinta Energy position

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<p>Proposal D:</p> <p>Calculate IRCR on a daily basis.</p> <p>Set representative load for new meters based on the maximum of the median demand in the four peak intervals of any prior calendar month.</p>	<p>Tentative</p> <p>While we appreciate the logic in setting a new load's IRCR based on its maximum load in any prior month, we do not understand why IRCR should be re-calculated daily and question whether the benefits of this would be worth the additional computational effort. We note that prior reforms to the IRCR and prudentials under the 'Reduction of Prudential Exposure' involved substantial work.</p>
<p>Proposal E:</p> <p>Set participant IRCR for flexible capacity based on the load shape in high ramp periods.</p>	<p>Support</p>
<p>Proposal F:</p> <p>Set IRCR for flexible capacity based on the three days with the highest four-hour upwards ramp at any time during the year.</p> <p>Require AEMO to publish the forecast ramp so that consumers can monitor and respond to the cost signal.</p>	<p>Support</p>
<p>Proposal G:</p> <p>Where a DSP has:</p> <ul style="list-style-type: none"> o the same Associated Loads that it had in the previous year, assign CRC based on IRCR of the Associated Loads less the minimum load requirement of the Associated Loads; and o different Associated Loads from the previous year, assign CRC based on a value nominated by the Market Participant. 	<p>Do not support</p> <p>We strongly oppose the proposal to allow DSPs to nominate their CRC value, considering that this would risk disingenuous applications that cause substantial volatility in the reserve capacity price and reliability forecast and thereby exacerbate investment uncertainty that is already a critical issue as the WEM transitions.</p> <p>If implemented, this proposal should be accompanied by stringent accreditation requirements or penalties to prevent or disincentivise applicants from submitting speculative offers that are designed only to meet a capacity test, noting the much lower likelihood of DSPs being dispatched compared to other capacity types.</p>
<p>Proposal H:</p> <p>Remove Consumption Deviation Applications (CDAs) from the assessment of DSP CRC.</p>	<p>Support</p>

Proposal I:

Allow sites with collocated load and

Review Outcome/ question

Alinta Energy position

Proposal Q:

Calculate a dynamic refund multiplier for flexible capacity based on a comparison of the actual ramp requirement in the interval and the ramp rate used to set the flexible capacity Reserve Capacity Requirement (RCR).

Apply the greater of the peak and flexible multipliers to refunds for facilities supplying both capacity products.

Require AEMO to publish the projected load ramp rate alongside the load forecast.

Proposal R:

Amend the Maximum Facility Refund for DSPs to include the DSM Reserve Capacity Security.

DSPs which voluntarily surrender Capacity Credits during the Capacity Year will

Tentative

We question whether the additional complexity of a separate refund regime is required for flexible capacity as we expect low reserve conditions for peak capacity would typically coincide with low reserve conditions for flexible capacity and that the instances where facilities are not able to provide flexible capacity but are able to provide peak capacity would be infrequent.

paid to other generators. However, resolving this apparent issue by requiring all refunds to be paid to market customers implicitly assumes that all future SRC and NCESS will be caused by forced outages, and that all forced outages will contribute to SRC and NCESS costs and reduce reliability. We note that this assumption is incorrect:

- o Only extended outages at the SWIS's coal-fired assets precipitated the need for SRC.
- o Corrections to AEMO's forecasting and growing demand (not forced outages) appear to be the key potential contributors to SRC and NCESS costs over medium term.

2. EPWA's rationale assumes that retailers will pass-through the rebates to customers. This is not certain, as the WEM Rules do not regulate how retail rates are set, and many customers are on regulated rates.

We would question how the WEM Rules could ensure rebates are passed-through to customers, noting that:

- o there is a disconnect between the real time, daily and weekly costs in the WEM and retail rates; and
- o the WEM Rules do not cover retail rates and doing so would represent a much broader and complicated reform.

We also question how rebates would be made to uncontested customers on regulated rates. Synergy may make a large windfall gain from the changes relative to other private-sector participants due to its franchise load.

We recommend that EPWA consider these issues before progressing their proposal as retailers not passing through the rebates would defeat the purpose of the reform - the collected refunds would not be used offset the costs of the SRC and NCESS, as envisaged by EPWA, meaning the changes to refund allocation would simply serve to increase retailers' margins.

3. The proposal has not been adequately interrogated, especially compared to the current arrangements implemented in 2017.

The current arrangements received thorough (and protracted) consideration and consultation before being implemented whereas the proposal to repeal them has only been mentioned during a working group meeting, without an investigation of neither the affirmative nor the negative arguments.

- o The current refund rebate regime was approved by the IMO through an [extended rule change process](#).
- o [Then, the Minister considered that it was](#) "consistent with the Wholesale Market Objectives" but

Review Outcome/ question

Alinta Energy position

	<ul style="list-style-type: none"> o Finally, the arrangements were approved by the Minister, PUO and industry through the EMR, which included extensive consultation via working groups. <p>4. <u>Re-allocating all rebates to customers would make the current refund regime excessively punitive for generators, especially given low reserves over the medium term.</u></p> <p>Low reserve conditions increase multipliers, substantially increasing generators' potential refund costs where they experience a forced outage.</p> <p>The current low reserve conditions also make it extremely difficult to schedule a planned outage, potentially leaving facilities no other option but to pay refunds while conducting crucial maintenance.</p> <p>Redistributing rebates to facilities meeting the relevant availability requirements helps to balance these risks.</p> <p>Removing them would disrupt this balance and make capacity investments in the SWIS significantly less certain - especially considering that low reserve conditions are forecast to persist given the challenge of matching supply to demand during the transition.⁴</p>
<p>Proposal T:</p> <p>Amend the target EUE percentage in the second limb of the RCM Planning Criterion to 0.0002% of annual energy consumption.</p>	<p>Do not support.</p> <p>We oppose this proposal considering that:</p> <ul style="list-style-type: none"> - the market has not been designed for the second limb of the planning criterion to bind. For example, capacity accreditation and its cost recovery is based on a peaking system and may not be fit for purpose where EUE sets the RCT. - this measure is extremely conservative, being 3 times more conservative than the interim measure currently applied in the NEM, and it is not appropriate to assume the system would have such a high standard in the RLM. - The rationale is not based on a value of customer reliability - it is an arbitrary level that is selected simply because it would be closer to binding ahead of the POE10-based target compared to the current EUE standard. - The WEM is a small and a very 'peaky' system, making an EUE target less relevant - the capacity required to meet the peak is likely to keep EUE very low given our high peak relative to our average load. Hence why an the EUE standard must be excessively high to bind ahead of the POE10 target. If our load shape substantially flattens changes, the proposed EUE target may become too stringent. - Per the forecast, it appears the proposed EUE is very unlikely to bind, meaning the only practical impact of the reform would be to the RLM.

⁴ [The SWISDA](#) forecasts that supply must increase by ~5 times by 2031.

- We consider that the proposed EUE target is inappropriate to apply to the RLM.
 - o It assumes reliability will be higher compared to the SWIS forecast shortfalls over the medium term.
 - o It arbitrability and unnecessarily reduces the number of intervals used to calculate the capacity value of the fleet, meaning it will become more volatile for no commensurate benefits to the investment signals or accuracy of the model (like the Delta Method, which was rejected for similar reasons).