



Minutes

Meeting Title:	Reserve Capacity Mechanism Review Working Group (RCMRWG)
Date:	6 July 2023
Time:	9:30 AM to 11:30 AM
Location:	Microsoft TEAMS

Attendees	Company	Comment
Dora Guzeleva	Chair	
Manus Higgins	AEMO	
Toby Price	AEMO	Until 11:00 AM
Oscar Carlberg	Alinta Energy	
Geoff Gaston	Change Energy	
Jake Flynn	Collgar Wind Farm	
Matt Shahnazari	Economic Regulation Authority	
Patrick Peake	Perth Energy	
Tessa Liddelow	Shell Energy	
Paul Arias	Shell Energy	
Noel Schubert	Small-Use Consumer representative	
Rhiannon Bedola	Synergy	
Peter Huxtable	Water Corporation	
Daniel Kurz	SSC Power	
Owen Cameron	Enel X	
Scott Cornish	Enel X	
Chester Li	Enel X	From 10:10 AM
Tim Robinson	Robinson Bowmaker Paul (RBP)	
Isaac Gumbrell	RBP	
Laura Koziol	Energy Policy WA (EPWA)	
Shelley Worthington	EPWA	

Item	Subject	Action
1	<p>Welcome</p> <p>The Chair opened the meeting at 9:30am with an Acknowledgement of Country.</p> <p>The Chair noted the next steps advising that:</p> <ul style="list-style-type: none"> • a draft of the RCM Review Stage 2 Information Paper (Information Paper) will be discussed at the 20 July 2023 MAC meeting; • EPWA has commenced drafting of the Amending Rules; and • The intent is to publish the Information Paper shortly after the MAC meeting to have a complete basis for the drafting of the Amending Rules. <p>Mr Robinson noted that this meeting of the RCMRWG is to discuss:</p> <ul style="list-style-type: none"> • any changes to the to the Stage 2 Proposals that EPWA is considering following feedback received in submissions; and • two additional proposals not included in the consultation paper that have been raised by stakeholders outside of the RCM Review or identified during drafting of the Amending Rules for the implementation of the Stage 1 Review Outcomes. 	
2	<p>Minutes of RCMRWG meeting 2023_03_22</p> <p>The draft minutes of the RCMRWG meeting held on 22 March 2023 were approved out of session and published on 8 May 2023.</p>	
3	<p>Removal of mandatory EOI response</p> <p>Mr Robinson noted that, for the past couple of years, facilities could only apply for Certified Reserve Capacity if their proponent had submitted an Expression of Interest (EOI). EPWA proposes to remove the mandatory requirement to respond to an EOI.</p> <ul style="list-style-type: none"> • Mr Carlberg, Mrs Bedola, Mr Arias and Mr Peake noted their support for the proposal. • Mr Price noted that he had not been involved in discussion relating to the proposal. He asked how AEMO would compile the relevant inputs for the RCM Constraint Equations and the indicative Facility Class assessment if the EOIs were not mandatory. <p>The Chair noted that EPWA had consulted with AEMO on this proposal. AEMO had indicated that the mandatory nature of the EOI process had resulted in many highly speculative proposals and different EOIs for variations of the same facility. The Chair noted that there was still very strong incentive for participants to submit an EOI for two reasons:</p> <ul style="list-style-type: none"> ○ Facilities for which an EOI was submitted will have a higher priority for the allocation of Network Access Quantities; and ○ the effect of constraints will be clearer for facilities for which an EOI was provided. <ul style="list-style-type: none"> • Mr Higgins supported the Chair’s comments, noting that assignment of an Indicative Facility Class would still be required as would registering 	

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	the facility name in the system to receive a placeholder in the certification process.	
4	<p>ESR Obligations for Flexible Capacity</p> <p>Mr Robinson noted that it had been identified that Electric Storage Resources (ESR) that are certified for Peak and Flexible Capacity may not be able to inject at their certified level during both the four ramping hours and their ESR Obligation Intervals (ESROI).</p> <p>Mr Robinson noted that the Reserve Capacity Requirement for Peak capacity would, at least in the foreseeable future, be set by demand forecast for the Hot Season and the Reserve Capacity Requirement for Flexible Capacity will be set by the forecast for the ramp outside of the Hot Season.</p> <p>Therefore, EPWA proposes that outside of the Hot Season:</p> <ul style="list-style-type: none"> • ESR will be required to be made available in the defined ramp intervals as well as the peak ESROI; and • if an ESR is dispatched during the ramp intervals, its Reserve Capacity Obligation Quantity (RCOQ) will be reduced to zero for the peak ESROI. <p>The Chair added that EPWA also proposes that if an ESR is dispatched at the start of the ramp period at a quantity that is significantly higher than its Flexible Capacity Credits, its RCOQ will be reduced for the remaining Trading Intervals of the ramp period.</p> <p>Mr Robinson noted that this will be similar to the current rules, under which if an ESR is dispatched at a level higher than its RCOQ, it will have its RCOQ reduced to zero for the subsequent ESROIs.</p> <p>In response to a question from Mrs Bedola, the Chair clarified that the obligation to be available in the peak ESROIs will take priority during the Hot Season because the ramp is not expected to be as steep as in winter. Outside the Hot Season, when the ramp is steeper, ESR availability during the ramp period will be prioritised over availability during the peak ESROIs.</p> <p>In response to a question from Dr Shahnazari, Mr Robinson clarified that ESR will be:</p> <ul style="list-style-type: none"> • required to be available in accordance with the availability obligations; and • incentivised to bid into the market so they are dispatched. <p>The Chair reiterated that on a peak demand day:</p> <ul style="list-style-type: none"> ○ it is unlikely that the ramp is going to be so steep that it drives very high prices during the ramp intervals; and ○ it is very likely that prices will be higher during the evening peak than during the ramp, as is currently the case, noting there is no evidence to suggest that this will change. 	

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	<ul style="list-style-type: none"> Mr Tayal agreed noting that in theory prices should reflect supply shortfalls. Mr Carlberg supported the approach and asked whether compliance with RCOQ is measured against charge levels of the ESR or offers. <p>The Chair noted that EPWA will further consider how availability during the ramp period is measured when developing the detailed design.</p> <ul style="list-style-type: none"> Mr Peake supported the approach noting that it increases the flexibility of the power system operation without penalising storage Facilities. Mr Price considered that data analysis is required to verify the assumption that high peak demand and steep ramp periods do not coincide. It should also be considered how the availability obligations for ESR can be amended because operational needs may change over time. Mr Price noted the expectation is that non-intermittent generators exiting the market will be replaced by storage of various duration. Therefore, AEMO is exploring how the current obligations for ESR will ensure reliability, allow outage scheduling and other activities, when a very large proportion of the fleet is short duration ESR. <p>The Chair noted that:</p> <ul style="list-style-type: none"> the rules can be further amended to address ongoing market evolution; and the analysis undertaken for the RCM Review and presented in the Consultation Papers, demonstrated that the steepest ramp never coincides with the summer peak demand. <p>Mr Robinson noted that the analysis indicates that the steepest ramp occurs in winter and considered that, if this was to change, it would likely be forecast in advance with sufficient time to amend the rules.</p> <p>In response to a request from Mrs Bedola, the Chair asked that any further comments regarding this issue be provided to EPWA within 24 hours.</p> <ul style="list-style-type: none"> Mr Carlberg considered that a mandatory offer window can distort the market and noted his preference to let the market drive ESR availability. <p>The Chair noted that the payments for Capacity Credits carry some obligations with them.</p> <ul style="list-style-type: none"> Mr Kurz agreed with the principles of the proposal and noted that it will be important to monitor how the system evolves over the coming years. <p>The Chair noted that the proposal will be included in the Information Paper and details may change as rules are drafted. The draft Amending Rules will be consulted on.</p>	

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5 Flexible IRCR – Addressing Gaming Potential

Mr Robinson noted that in its submission, Electricity Market Advisory Services (EMAS) noted that the method proposed for setting the Flexible Capacity Individual Reserve Capacity Requirement (Flexible IRCR) provided an opportunity for gaming given the right load characteristics. Participants with behind the meter generation could game the Flexible IRCR allocation process by briefly increasing load at the start of the Flexible IRCR assessment period (for example by turning off behind the meter PV), to minimise the difference between load at the start and the end of the period.

Mr Robinson noted that five options (A – E) had been explored to address the potential gaming and provided examples of the different options (Slide 12- 15). The proposal was to adopt option E and base the Flexible IRCR on the largest difference between the last Trading Interval and any other Trading Interval during the ramp period.

- Mrs Bedola considered that caution must be taken that participants are not charged twice for volatility, once through cost for Regulation Raise and Lower¹ and once through the Flexible IRCR. Mrs Bedola considered that site 2 from the example should not be paying Flexible IRCR as it was creating volatility and not contributing to the ramp.

Mr Robinson considered that Option E addresses Mrs Bedola’s concern better than Option D.

- Mrs Bedola considered that under option E Site 5 was still able to game the Flexible IRCR.

Mr Robinson noted that there was a need to strike a balance between transparency of the method and addressing all edge cases. Mr Robinson noted that the behaviour of Site 5 was still reducing the steepness of the ramp.

In response to a comment from Mrs Bedola, Mr Robinson noted that the Peak IRCR intervals and the Flexible IRCR intervals are not likely to be on the same day and are likely to be in different parts of the year.

The Chair noted that while it was not ideal that Site 5 could reduce its Flexible IRCR, it would increase its costs for regulation as a result of its volatility.

- Mrs Bedola considered that there was a potential for some participants to game the Peak and the Flexible IRCR and not pay for capacity at all while contributing to the requirement for it. Mrs Bedola noted that this gaming potential should be considered because otherwise the cost for capacity will be shifted to customers who do not have the ability or incentives to act.

In response to a comment from Mr Cornish, the Chair acknowledged that none of the identified methods was perfect. The Chair acknowledged that

¹ The allocation of the costs for Regulation Raise and Lower to volatile loads is currently considered under the Coordinator’s Cost Allocation Review.

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	<p>the issue with the preferred method was that Site 5 could still avoid Flexible IRCR.</p> <p>The Chair noted that if members could propose a better method they should provide it to EPWA within the next 48 hours.</p>	
<p>6</p>	<p>Flexible Capacity refunds</p> <p>Mr Robinson noted that a variety of submissions raised issues in relation to Proposal P (using a single refund pool for Peak and Flexible Capacity). In particular, there was concern that if participants are paying capacity refunds, rebates should go back to the set of participants that have either paid for flexible capacity or the providers who have met their obligations in the same intervals.</p> <p>Mr Robinson noted that rule drafting will proceed on the basis that there will be separate capacity payment pools.</p> <p>In response to a question from Mrs Bedola, Mr Robinson clarified that the refund pool for Flexible Capacity would reflect the difference between the Peak and Flexible Reserve Capacity Price.</p> <ul style="list-style-type: none"> • Mr Kurz and Mrs Bedola supported the proposal. <p>The Chair noted that, based on comments received, there was no strong objection to the proposal.</p>	
<p>7</p>	<p>DSP capacity certification approach</p> <p>Mr Robinson noted that based on the feedback in submissions, EPWA proposes to amend the criteria for choosing which of the two proposed methods for assigning CRC to Demand Side Programmes (DSPs) to apply as follows:</p> <ul style="list-style-type: none"> • DSPs with a single Associated Load are allocated CRC based on their IRCR; and • DSPs with more than one Associated Load are allocated CRC based on their nomination. <p>In response to a comment from Mrs Bedola, the Chair noted that for a large single load AEMO would always have to check the current IRCR.</p> <ul style="list-style-type: none"> • Mr Carlberg raised a concern that allowing DSP providers to nominate a DSP's CRC may result in a similar situation to the EOI process in which, despite the higher penalties, there will be many applications with last minute withdrawals resulting in refunds. Mr Carlberg noted that this had previously been the case with DSPs, and that it could impact on the Reserve Capacity Price. <p>The Chair noted that the analysis for the RCM Review showed that DSPs will have to play an important role for future system reliability and security. The Chair considered that it is not reasonable to require DSP aggregators to provide TNIs/NMIs three years in advance and that this would exclude valuable resources from the RCM.</p>	

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	<ul style="list-style-type: none"> Mr Higgins confirmed that AEMO saw a bigger role for DSPs and considered that AEMO should have visibility of real-time consumption for DSPs. 	
	<p>The Chair noted that Mr Carlberg's concerns would be further addressed under agenda item 9.</p>	

8 DSP dispatch commitment

Mr Robinson noted that feedback received from previous working groups and past discussion indicated that the current DSP limit, allowing AEMO to dispatch DSPs for up to 200 hours in a Capacity Year, deters DSPs from participating in the market. If this were to be reduced then much more DSPs would likely enter the market.

In the Consultation Paper EPWA asked stakeholders to provide their view of the ideal DSP dispatch limit. Feedback from submissions to the Consultation Paper had been mixed with a wide spread of alternatives proposed (Slide 23).

Mr Robinson noted that EPWA considered that the DSP dispatch limit should be based on the forecast load duration curve and presented the supporting analysis (Slide 24). Mr Robinson noted that the proposed approach is to set the DSP dispatch limit based on the number of hours that the demand for the 10% POE peak demand scenario exceeds the peak demand for the 50% POE peak demand scenario.

- Mrs Bedola expressed concerns with lowering the DSP dispatch limit without lowering the payments for the DSPs Capacity Credits. She considered that it is unfair to pay a DSP more for its capacity than ESR while requiring less hours of availability, imposing lower obligations and getting less reliability for the system.
- Mr Cornish noted that the current proposition is keeping DSPs out of the market and that reducing the capacity payments when reducing the DSP dispatch limit would maintain the status quo.

The Chair acknowledged that the WEM Rules allowed AEMO to dispatch ESR for more hours than DSPs in a Capacity Year. However, DSPs have an obligation to be available for 12 hours a day while an ESR is only required to be available for four hours.

- Mrs Bedola noted that she saw no issue with reducing the daily availability requirement for DSPs but disagreed with the idea of reducing the DSP dispatch limit from 200 hours.
- Mrs Bedola considered that DSPs might need to be procured as a different product, potentially like supplementary capacity.

The Chair noted that procuring supplementary capacity is an emergency measure that should not be used every year.

The Chair noted that ESRs require investment certainty and once they enter the market, they will be made available to the market. This is different for DSPs because, every time they are dispatched, they incur material costs, which can be at the value of lost load.

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- Mr Cornish noted that as per its submission, Enel X proposed to set the DSP dispatch limit to 20 hours per Capacity Year, which was in line with applying EPWA's proposed method to the 50% POE peak demand instead of the 90% POE peak demand.
- Mr Cornish proposed to also consider capping the number of times a DSP can be dispatched, noting that 50 dispatch events of one hour, are much more imposing than 12 dispatch events of 4 hours.
- Mr Schubert supported the assessment of the DSP dispatch limit against the load duration curve. He noted that the analysis showed that high demand does not occur in that many hours and that 200 hours is more than the system needs from DSPs. However, the more DSPs there are in WEM, the more hours they need to be available for dispatch.
- Mr Schubert considered that the DSP dispatch limit should reflect what the system needs plus a margin, because AEMO will not know exactly how many days of high demand there will be in a particular year.

Mr Robinson noted that, to address the need to increase the DSP dispatch limit with increasing DSP penetration, EPWA was currently exploring:

- (1) reducing the 90%POE peak demand by the current DSP Capacity Credits; and
 - (2) basing the DSP dispatch limit on the number of hours that the demand under the 10% POE peak demand scenario exceeds (1).
- Mr Cornish noted that loads would always see the DSP dispatch limit as the worst case scenario when deciding whether to enter the market. Mr Cornish considered that there is a trade-off between setting the requirements for DSPs to satisfy system needs and keeping DSPs out of the market altogether because the requirements are too onerous.
 - Mr Cornish considered that a DSP dispatch limit of 50 hours would still keep many resources out of the market. He considered it very unlikely that a DSP would actually need to be dispatched for more than 20 hours and that a DSP dispatch limit of 20 hours would attract significantly more megawatts into the market than a limit of 50 hours.
 - Mr Cornish noted that the analysis presented in the papers as well as Enel X's own analysis indicated that not all of the DSPs would be required for 50 hours. He suggested that a 50 hour dispatch limit could be applied to half the DSPs and a 20 hour dispatch limit to the other half.

The Chair considered that if every DSP is valued at the same price then the dispatch limit must also be the same for every DSP.

Mr Robinson noted that stacking of various availability requirements had been discussed and dismissed for setting the availability requirements for other Capability Class 2 Facilities.

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- Mrs Bedola suggested changing the payment structure for DSP so they get a smaller availability payment but get compensated for the value of their lost load when dispatched.

The Chair acknowledged that the approach of a lower availability price and a higher dispatch price might have some merit, but such an approach would create more uncertainty about costs for consumers.

- Mrs Bedola noted that stacking had been ruled out for ESR and therefore it should not be applied for DSPs. She suggested that paying for duration as well as peak capacity could address the issue so all Facilities receive a "peak capacity payment" and the ones that are available for longer also receive a duration payment.
- Mrs Bedola noted that diesel generators are only expected to be dispatched a few hours per Capacity Year, but have obligation to be available all the time.
- Mr Cameron suggested that DSPs could be required to provide their full capacity for the first 50 Trading Intervals of dispatch and only 50% of their capacity for the remaining Trading Intervals. This would allow DSP aggregators to recruit the loads that are only willing to commit to up to 20 hours of dispatch a year.

Mr Robinson noted that for most years the actual dispatch will be expected to be much lower than the dispatch limit and that the dispatch limit is only expected to be reached in some years. Mr Robinson considered that the objective is to strike a balance between providing certainty to DSPs and providing certainty to consumers.

The Chair considered that aggregators can oversubscribe the DSP and may aggregate loads in a way which limits the amount of hours each single loads may be dispatched for.

- Mr Cameron reiterated that many of the really big loads are very risk averse regarding the dispatch limit and suggested that the market could provide additional payments for those loads so they are compensated at \$500 to \$600 per MWh if dispatched.
- Mr Kurz considered that the large loads that do not participate as DSPs because of the dispatch limit, do not participate because their cost of curtailment is greater than the payments received.

The Chair agreed with Mr Kurz. The Chair noted that Mr Cameron's proposals would add too much complexity to the regime. However, the dispatch limit of 200 hours appeared arbitrary and presented an unnecessary risk for DSPs. The Chair considered that the dispatch limit must be set reasonable and based on logic.

- In response to a question from Mr Peake, Mr Higgins confirmed that DSPs are not the last Facilities dispatched.
- In response to a question from Mr Huxtable, Mr Higgins noted that he was not sure about the number of hours DSPs had been dispatched

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this Capacity Year but that they had definitely been dispatched at least during two days in summer and two days in winter.

- Mr Carlberg was opposed to providing DSPs with more generous conditions and considered that the main reasons why loads did not participate as DSPs was because they could generate more value by reducing their IRCR.
- Mrs Bedola supported Mr Carlberg’s comment.
- Mrs Bedola considered that flexible loads that can participate as DSPs should already participate by reducing their IRCR. Therefore, when they become DSPs they are not actually a new resource but are de facto switching sides.

The Chair considered that DSPs are a flexible resource that adds only a small cost to the market.

Mr Robinson noted the changes proposed so far in the RCM Review would increase the incentive for loads to participate as DSPs instead of decreasing their IRCR.

The Chair noted that it is also important to ensure that a DSP’s IRCR reduction is accounted for in the Capacity Credits assigned and that this will have to be addressed in the detailed design.

Mr Robinson noted that this was planned to be addressed through the design of the dynamic baseline.

- Mr Cornish considered that under the current proposal, if a load was reducing its IRCR it would erode around 20% of its DSP value.
- In response to a question from Mrs Bedola, Mr Cornish noted that to reduce its IRCR a load currently needs to reduce consumption for around 3 hours on about 10 days every year. For many loads this adds up to too many hours.

The Chair noted that DSPs provide more value to AEMO than IRCR reduction because they provide AEMO with greater certainty. The Chair noted that the IRCR reduction may also not be fully reflected in AEMO’s load forecast.

9 DSP Refund Cap

Mr Robinson noted Mr Carlberg’s concern raised under agenda item 7, that DSP providers could nominate CRC for their DSPs, not deliver, pay refunds but still keep their reserve capacity security and so they would not be out of pocket.

Mr Robinson noted that this concern was addressed with proposal R for DSP refunds that aimed to ensure that DSP providers were penalised for not delivering on their obligations.

Mr Robinson noted that the initial proposal was to amend the Maximum Facility Refund to include the DSM Reserve Capacity Security. However, AEMO was concerned in its submission that drawing on Reserve Capacity

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	<p>Security is cumbersome and therefore not appropriate for this purpose. Mr Robinson summarised four options identified to address the issue:</p> <ul style="list-style-type: none"> A. status quo – the current refund regime is sufficient to ensure availability; B. consultation proposal – draw on Reserve Capacity Security for non-performance; C. increased refund cap – set maximum capacity refund amount to more than total capacity payments for the year (e.g.125% of the annual capacity payments); and D. exclude test failure refunds from the cap – i.e. do not increase the cap on all refunds but do not count refunds due to a failed test against the refund cap. <ul style="list-style-type: none"> • Mrs Bedola agreed that it made sense to increase the Maximum Facility Refund for DSPs so that it ends up equivalent to the annual payments for the Capacity Credits plus the DSP Reserve Capacity Security (in total 125% of annual capacity payments). • Mr Carlberg noted that he would be more comfortable with allowing DSP providers to nominate CRC if Option C was in place as well. • Mrs Bedola, Mr Peak and Mr Cornish supported Option C. 	
10	<p>General Business</p> <ul style="list-style-type: none"> • Mr Carlberg considered that the proposal for distributing refunds to customers could benefit from further discussion. <p>The Chair noted that:</p> <ul style="list-style-type: none"> ○ the decision how to distribute refunds is a policy decision; and ○ further discussion could be facilitated, but that stakeholders had provided their arguments in submissions. • Mr Arias acknowledged that the distribution of refunds is a policy decision but that he considered there is a need to clearly articulate the arguments for those policy decisions. <p>The Chair considered that the last 24 months during which Non Co-Optimised Essential System Services and supplementary capacity had been procured demonstrated the justification for the policy direction. However, an additional RCMRWG could be scheduled to discuss the issue.</p>	

The meeting closed at 11:30am