



Minutes

Meeting Title:	Reserve Capacity Mechanism Review Working Group (RCMRWG)
Date:	13 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 10 AM
Daniel Kurz	Summit Southern Cross Power	
Oscar Carlberg	Alinta Energy	
Geoff Gaston	Change Energy	
Andrew Stephens	Clear Energy Pty Ltd	
Jake Flynn	Collgar Wind Farm	
Matt Shahnazari	Economic Regulation Authority	
Patrick Peake	Perth Energy	
Tessa Liddelov	Shell Energy	Until 10 AM
Paul Arias	Shell Energy	
Noel Schubert	Small-Use Consumer representative	
Rhiannon Bedola	Synergy	
Peter Huxtable	Water Corporation	
Andrew Walker	South32 (Worsley Alumina)	
Owen Cameron	EnelX	
Kiran Ranbir	ATCO	
Isaac Gumbrell	Robinson Bowmaker Paul (RBP)	
Stephen Eliot	Energy Policy WA (EPWA)	
Laura Koziol	EPWA	
Shelley Worthington	EPWA	

Item	Subject	Action
1	<p>Welcome</p> <p>The Chair opened the meeting at 9:40 am and noted that the meeting was to provide the RCMRWG members opportunity to provide evidence as to why they either agree or disagree with Proposal S: Distribute collected capacity refunds to consuming participants rather than other capacity providers.</p>	
2	<p>Discussion on Proposal S</p> <p>The Chair indicated that the only item for discussion was Proposal S, (the allocation of capacity refunds to loads rather than generators). The Chair sought comments from all RCMRWG members.</p> <ul style="list-style-type: none"> • Mr Stevens indicated that he could recall when the WEM Rules were changed to allocate refunds to generators instead of customers, and that it made sense at the time, but that he now does not have a preference. • Mr Arias indicated that: <ul style="list-style-type: none"> ○ When the WEM Rules were previously changed to allocate refunds to generators, consideration was given to the incentives this would provide – to rewards availability and to encourage generator availability during times of system stress. Changing the allocation back to loads has no behavioural benefit. ○ The current refund mechanism provides a proxy for dynamic capacity pricing, as there is no other way to reward capacity for the value it brings at the time that it is utilised. ○ Changing the WEM Rules to allocate refunds to loads seems to be linked to Supplementary Reserve Capacity (SRC), but refunds, outages and SRC are distinctly separate in some circumstances and related in others. ○ He understands the point that consumers should not pay for capacity twice, but this would be better addressed by looking at the funding arrangements for SRC than simply assuming that the refunds mechanism is a pseudo fix for SRC. • Mr Cameron indicated that he does not have strong views on the matter, but it seems more equitable that refunds should go to customers because capacity providers that are available do not provide anything beyond what they are already paid for. • Mr Carlberg indicated that: <ul style="list-style-type: none"> ○ He agrees with Mr Arias, particularly on the incentives for availability. ○ SRC is not always going to be caused by Forced Outages, and even where it is, it is only a few Facilities contributing to the need for SRC, so the proposal is overly punitive for other capacity providers. 	

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	<ul style="list-style-type: none"> ○ The refunds will not go to customers if retailers do not pass through the refunds. ○ It is getting extremely difficult to schedule a Planned Outage, so generators are increasingly exposed to refunds and have no way to recoup these costs, which will make investment in generation more risky. 	
	<ul style="list-style-type: none"> ● Mr Kurz indicated that: <ul style="list-style-type: none"> ○ He agrees with the points made by Mr Carlberg and Mr Arias. ○ Rescheduling Planned Outages increases the risk for Forced Outages. ○ The importance of providing capacity to the market when there are Forced Outages is paramount and refunds are the reward mechanism for making Facilities available. ○ Most generators are also retailers, and this proposal will only change which part of the entity gets the refund, but this is not true for all generators. 	
	<ul style="list-style-type: none"> ● Mr Gaston indicated that: <ul style="list-style-type: none"> ○ There was never an economic justification for paying refunds to generators, the incentive for availability comes from avoiding refunds and being paid for availability. ○ Customers that have paid for capacity should get refunds if they do not get the capacity. ○ Forced Outages increase the Balancing Price to the detriment of customers. ○ Paying refunds to generators just results in windfall profits and generators don't pass through the refunds in their offers to the Balancing Market. ○ Retailers would pass through refunds to customers. 	
	<ul style="list-style-type: none"> ● Mr Higgins indicated that it is not appropriate for consumers to pay for both reserve capacity and for SRC that is required when capacity is not available. Refunds should pay the costs of SRC. 	
	<ul style="list-style-type: none"> ● Mr Carlberg agreed with Mr Higgins that customers should not pay for capacity twice. However, he considered that SRC should only be funded by those with Forced Outages creating the need and other generators should not have to fund SRC. 	
	<ul style="list-style-type: none"> ● Ms Liddelow agreed with Mr Arias and Mr Carlberg. 	
	<ul style="list-style-type: none"> ● Dr Shahnazari indicated that: <ul style="list-style-type: none"> ○ The cost to consumers of not having enough capacity in real time, as was expected when Capacity Credits were assigned, can be much larger than what generators are paid and refunds can be higher than the payment for Capacity Credits. 	

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- Perhaps refunds should be used to incentivise availability, as is done in the PJM where refunds can be recycled to facilities that perform above the certified level.

The Chair noted that SRC is the WEM equivalent to the mechanism in PJM.

- Mr Schubert indicated that:
 - Consumers should not have to pay twice for capacity to make up for someone that is not performing.
 - Paying refunds to generators is a windfall profit when they do not provide any additional service.
 - He agrees with the points made by Mr Gaston and Mr Higgins.
- Mr Peake indicated that he agrees with the proposal for two reasons:
 - Loads are paying for reliability and should be compensated if they do not receive that reliability, especially since plant that is on a Forced Outage will probably be replaced by a more expensive plant.
 - It is more likely that refunds will go back to customers if they are paid to loads or retailers than if they are paid to generators.
- Mr Huxtable supported the proposal and agreed with the points raised by Mr Gaston and Mr Peake.
- Ms Ranbir indicated that she has no views on this matter.
- Mrs Bedola indicated that it makes more sense for refunds to be paid to retailers that have paid for capacity.
- Mr Walker agreed with Mr Higgins.
- Mr Stevens considered that:
 - The WEM has changed a great deal since the change was made to pay refunds to generators, as SRC is now much more likely.
 - Perhaps refunds should fund SRC and any excess should go to generators.
 - If no SRC is procured, customers are still getting the service they have paid for.
 - Most customers are bilaterally contracted.
- Mr Arias and Mr Kurz agreed with Mr Stephens that most customers are bilaterally contracted.

The Chair questioned how using refunds to fund SRC could work because in a Capacity Year SRC costs may exceed refunds. The Chair pointed out that currently Reserve Capacity Security from capacity that does not eventuate is used to pay for SRC.

- Mr Higgins indicated that the drawn Reserve Capacity Security did not fully cover SRC costs last year, so the concept is for refunds to pay the balance.
- Mr Arias indicated that there are two distinct periods –refunds could fund SRC in the Hot Season when outages will have an impact, but

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should be paid to generators as they currently are for the rest of the year when there is no degradation of availability.

- Mr Gaston considered that:
 - The issue was not only about SRC but also increased energy prices due to Forced Outages.
 - It did not matter whether customers are bilaterally contracted as generators are bilaterally contracted as well.

Mrs Bedola considered that bilateral contracts are a means for generators to protect themselves from low market prices too.

The Chair noted that:

- lately Short Term Energy Market prices and Balancing Market prices have been very high due to Forced Outages.
- The last change to recycle refunds to generators was part of a larger package of changes that included compromises.
- If any other product is bought and not received one would expect a refund.
- Recycling refunds to generators may incentivise availability because generators don't want their competitors to benefit.

3 General Business

No general business was discussed

The meeting closed at 10:30am