

Minutes

Meeting Title:	WEM Investment Certainty Review (WIC Review)
Date:	6 December 2023
Time:	9:30 AM to 11:30 AM
Location:	Microsoft TEAMS

Attendees	Company	Comment
Dora Guzeleva	Chair	
Mena Gilchrist	AEMO	Joined 10am
Oscar Carlberg	Alinta Energy	
Francis Ip	BLT Energy Pty Ltd	
Tom Frood	Bright Energy Investments	
Jake Flynn	Collgar Wind Farm	
Liz Aitken	Empire Carbon and Energy	
William Street	Entego Group Pty Ltd	
Dr Matt Shahnazari	ERA	
Noel Schubert	Expert Consumer Panel	
Luke Skinner	Expert Consumer Panel	Joined at 9:50am
Timothy Edwards	Metro Power	
Patrick Peake	Perth Energy	
Paul Arias	Shell Energy	
Shane Cremin	Summit Southern Cross Power Pty Ltd	
Wesley Medrana	Synergy	Proxy for Rhiannon Bedola
Ben Tan	Tesla Corporation	
Peter Huxtable	Water Corporation	
Valentina Kogon	Western Power	
Tim Robinson	Robinson Bowmaker Paul (RBP)	
Shelley Worthington	EPWA	
Tonia Curby	EPWA	

Item	Subject	Action
1	<p>Welcome</p> <p>The Chair opened the meeting with an Acknowledgment of Country and welcomed members.</p>	
2-3	<p>Meeting Attendance and Minutes</p> <p>The Chair noted the meeting attendance as listed above and that Minutes from 8 November 2023 have been published.</p>	
4	<p>RCP Curve - options</p> <p>Mr Robinson presented the following issues with the existing Reserve Capacity Price (RCP) curve:</p> <ul style="list-style-type: none"> ○ if there is enough capacity to meet the target on the current curve, the capacity price would be 1.3 times the BRCP. EPWA considers this approach adds an unnecessary premium to the capacity price and incentivises overbuild; and ○ the absolute zero point is high compared to other jurisdictions. <p>Mr Robinson recapped that in the last WICRWG meeting, four options for the price curve were identified, noting that:</p> <ul style="list-style-type: none"> ○ all options proposed by EPWA set capacity price at the BRCP at the Reserve Capacity Target (RCT); and ○ if there is no difference between the reference technology for peak and flex capacity, then a peak capacity shortfall will provide zero additional signal for flexible capacity even if there is also a shortfall of flexible capacity. <ul style="list-style-type: none"> ● Mr Arias noted that, if the position since 2019 was to incentivise new capacity at the target and there is now a shortfall, we are reversing this assumption and expecting a different outcome. <p>Mr Robinson noted that RCP volatility must be considered and that the WICRWG needs to consider whether the options provide additional certainty or not.</p> <p>The Chair noted that the Coordinator is soon to make a determination of the BRCP reference technology. She noted that the new reference technology and the gross cost of new entry approach will provide surplus revenue for some technologies. She noted that the intention of this review is to provide certainty but also dovetail with other work completed in the RCM Review. She also noted that this will be subject to consultation.</p> <ul style="list-style-type: none"> ● Mr Arias appreciated that this will be part of broader consultation. ● Ms Aitken asked how the Commonwealth Capacity Investment Scheme (CIS) will impact on this work and whether the WEM would need to adopt the CIS framework. <p>The Chair responded that there is a proposal to support firmed renewable generators in the WEM, which will be discussed in the next meeting.</p>	

Item	Subject	Action
	<ul style="list-style-type: none"> Ms Aitken considered that a similar proposal to the CIS would eliminate some of the issues raised in slide 7, as capacity holders would be obliged to pay back if profits exceed a predetermined level. <p>The Chair noted the difficulties in using the CIS design for the National Energy Market for Western Australia's WEM.</p> <ul style="list-style-type: none"> Dr Shahnazari noted that, given the uncertainty in estimating BRCP and the Reserve Capacity Target (RCT), it may be beneficial to allow a small level of excess capacity at the BRCP. The cost to consumers of a potential under-procurement can be much more than allowing a small excess. <p>The Chair noted that this is a good point and noted that one of the options proposed a symmetrical flat line around the RCT.</p> <ul style="list-style-type: none"> Mr Carlberg agreed, noting that this has been observed with Non-cooptimised Essential System Services (NCESS) being called despite the Reserve Capacity Price being below the floor price for 2023/24. Mr Schubert clarified that this capacity year, the RCP for non-transitional generators is lower than the price floor for the transitional facilities. He noted that there is a lag in the RCP response as there is currently a shortfall in capacity and yet capacity prices are relatively low. <p>The Chair considered that one cannot look at the capacity price this year, but rather need to consider the RCP three years ahead as this is the signal for new facilities.</p> <ul style="list-style-type: none"> Mr Carlberg sought to clarify why the RCP should be set at the BRCP at target. <p>The Chair responded that the analysis suggests that gross CONE is the better approach and noted that for a period of time facilities may make more money than needed to cover their long-run costs.</p> <ul style="list-style-type: none"> Mr Schubert noted that AEMO's new reserve margin approach incentivises more capacity because of the higher target increases the capacity shortfall and the RCP. He considered this also needs to be taken into account when balancing other considerations. <p>The Chair responded that the Consultation Paper will seek to address how all of these factors work together. She also noted that none of the other markets in the jurisdictional review use gross CONE, or have the RCP above the BRCP at the target.</p> <ul style="list-style-type: none"> Mr Carlberg responded that, if this had been implemented in the current capacity year, the price would have been lower, so the signal would have been more dissonant with the current need for capacity. <p>The Chair responded that the price this year is based on what we understood in 2021, noting that things have changed drastically since.</p> <ul style="list-style-type: none"> Mr Tan questioned how this would deal with government decisions in building excess capacity, noting that this may increase investment risk 	

Item	Subject	Action
	<p>if there is a deep curve that goes to true zero. He also noted that pushing absolute revenue to zero impacts on the ability to finance projects.</p> <p>The Chair noted that Synergy is currently only replacing the capacity which has been scheduled for retirement by the end of the decade. She noted that it is unlikely this group can do anything about future government decisions, but it can create an environment for private investment.</p> <ul style="list-style-type: none"> Mr Skinner noted that mechanisms to constrain actions of future government are ineffective as these laws can be overwritten by the future government. Mr Peake responded that holding the price at the BRCP when there is still some excess, as in option 4, is good. Dr Shahnazari elaborated on his previous comment noting that other jurisdictions allow around 1% excess capacity at their BRCP but use net CONE. He noted that, if gross CONE is used, there would be some leeway in the calculation and these differences need to be considered in the jurisdictional analysis. Mr Carlberg noted that the margin in Western Australia is very thin, for example only 10 MW can sway the excess. <p>The Chair responded that having a deadband around the target prevents the price from immediately dropping and immediately increasing.</p> <ul style="list-style-type: none"> Ms Aitken noted that this delay impacts on the finance/debt costs which increase significantly in the intervening period. <p>Mr Robinson noted that the WEM is a much smaller market and is not interconnected. He considered that this means it is not reasonable to set the absolute zero point at 5% or 10% above the target, as in other jurisdictions. He noted that, for this reason, the absolute zero point at 130% capacity is being retained.</p> <ul style="list-style-type: none"> Mr Carlberg considered that this makes sense in the context of the SWIS being a small state-owned grid where the government is building new capacity. He questioned if it is worth considering a non-zero floor. Mr Peake considered that a symmetrical flat line around the target is sound. Mr Street considered that the percentage excess matters in the WEM given its small size and that aligning the forecast inaccuracy with the incremental change in the price makes sense. Mr Schubert supported leaving at the absolute zero point at 130%. Mr Skinner did not consider that any investment should be encouraged above 130% of the target capacity. He questioned what the rationale of not having a price floor would be. <p>Mr Robinson noted that the rationale for a floor would be investment certainty.</p> <ul style="list-style-type: none"> Mr Carlberg considered the logic for a floor is to avoid excessive losses to investors. 	

Item	Subject	Action
	<ul style="list-style-type: none"> Mr Skinner responded that at the point of 30% oversupply of capacity, the market should not be sending a signal for more investment. Mr Carlberg considered that there would not be a signal if the facility can only recover 50% of the capital cost, but this was about someone who has already invested not going broke. Mr Skinner considers that it is unrealistic that government investment decisions would cause a 30% overbuild in capacity. <p>Mr Robinson noted that for new capacity to enter on an economic basis during a capacity surplus, it would need to be making money back in the energy market or through LGCs and asked whether it would be reasonable to put an administered price forced recovery on consumers at that point.</p> <p>The Chair noted that historically, there was a formula to ensure that consumers never pay more than they would if the target was reached in situations of capacity excess.</p> <p>In response to Mr Skinner, the Chair considered that investors would make assumptions that at some point they are not going to be able to recover their costs in the market.</p> <ul style="list-style-type: none"> Mr Tan considered that if the price gets to zero, existing capacity will exit. Mr Cremin considered that this depends on the capacity, as at some point energy will be needed. Mr Flood considered that the floor is helpful, as the entire capex is not recovered within the cycle and participants are not allowed to include profit and risk under the offer guidelines. Mr Schubert questioned whether the WEM rules currently cap the amount of excess capacity. <p>The Chair responded that a new facility, which has a bilateral contract, can be considered as committed and receive capacity credits despite there being excess capacity.</p> <ul style="list-style-type: none"> Mr Edwards considered that if 130% is reached and puts the RCP to zero, it would punish existing facilities and damage future investment. Mr Ip considered that having a 130% cap makes sense. He considered that the RCP alone will not be enough to build an investment case for renewables but signalling for overcapacity is important. <p>The Chair summarised that the absolute zero point is important to consider.</p> <p>Mr Robinson summarised that there have been arguments on both sides and that these arguments should be adequately covered in the Consultation Paper. He noted that there needs to be a signal in the event of over-capacity to protect consumers.</p> <p>Mr Robinson noted the four options being considered:</p> <ul style="list-style-type: none"> Option 2 is an adjusted four segment curve based on the status quo. 	

Item	Subject	Action
	<ul style="list-style-type: none"> ○ Option 3 has a different curve for flexible capacity to resolve the issue of there being no additional signal for flexible capacity if there is a peak capacity shortfall. ○ Option 4 includes a 5% deadband for surplus capacity only, noting the previous proposal also included a symmetrical deadband around the target. ○ Option 7 does not include an absolute zero point and replicates the pre-2019 curve with a higher cap. ● Mr Peake considered that the deadband in option 4 should extend to 110% noting the volatility in the capacity calculations year on year. He considered that this would provide investor certainty and would not impose a substantial cost to customers. ● Mr Carlberg agreed with Mr Peake and noted changes to Synergy's construction timelines, the demand forecasts and investment plans which can create big swings in the capacity price for investors. He also considered that this is why a 130% excess is not unlikely. 	
5	<p>Option evaluation</p> <p>Mr Robinson provided an overview of what the WIC review must consider noting that:</p> <ul style="list-style-type: none"> ○ The overall methodology and design principles still seem appropriate; ○ The shape of the price curve and the transitional arrangements will be discussed; ○ The options were assessed against the design principles. ● Ms Aitken asked whether emissions intensity factors affect the payment amount to individual generators rather than the curve, and whether a high emissions intensity generator will have all of its capacity included for the actual capacity amount used to calculate the RCP. <p>The Chair responded that if the facility loses Capacity Credits, these would not be included in the calculation.</p> <ul style="list-style-type: none"> ● Ms Aitken questioned what happens to the calculation if a facility awarded capacity credits for a future year, exceeds its emissions threshold in the meantime. <p>The Chair noted that it is not proposed that the Reserve Capacity Price would change once set.</p> <p>Mr Robinson responded that it may affect the price in a subsequent cycle if AEMO has to procure additional capacity.</p> <ul style="list-style-type: none"> ● Mr Skinner considered that the RCM should not be used for consumers to cross-subsidise risky investments for capacity which is not needed. ● Mr Peake agreed and noted that the RCM has not encouraged new capacity since 2010. He considered that there needs to be a fair balance between risk carried by investors and consumers. 	

Item	Subject	Action
	<ul style="list-style-type: none"> • Mr Edwards considered that the only way to manage investment risk for 10-20 year assets is the smooth curve (pre-2019 method). <p>The Chair did not consider this curve sent a strong signal in the event of capacity shortfalls.</p> <p>Mr Robinson responded that the price cap for this curve was 1.1 which is not a strong signal for investment.</p> <ul style="list-style-type: none"> • Mr Peake considered that the curve is a fair approach as it removes the cost risk to customers if there is excess capacity. He noted that this does not incentivise Government to invest in excess capacity as a mechanism to drive prices down. • Mr Skinner responded that other markets without this curve get investors. <p>Mr Robinson summarised that the Working Group agrees with a stronger signal being sent when there are capacity shortfalls but agrees that investors should be paid in a surplus situation to encourage investment.</p> <ul style="list-style-type: none"> • Mr Edwards considered that the biggest risk is lack of capacity and loss of supply. He considered that both capacity surplus and shortfall increase costs to consumers. He indicated support for option 7. • Mr Tan considered that a floor would protect from bad outcomes. • Mr Peake considered that Government decisions cannot be stopped, a resilient system can be designed which ensures private investors can make a fair return. He noted support for the deadband in option 4. • Mr Carlberg agreed that government decisions cannot be stopped but the key is to get the target right. He noted investors will look for reasonable returns over the life of their investment. • Mr Skinner noted support for the flat band proposal, but considered that the exact percentage must provide certainty around the investment needed and asked at what point investors think consumers should stop paying for excess capacity. He considered that other jurisdictions have demonstrated that their price curves are able to incentivise investment. • Mr Edwards noted that there was an oversupply and subsequent rule change caused approximately 450MW of Demand Side Programmes to leave the market. He considered that the big issue is capacity shortage, noting that if there is an oversupply and costs increase the rules can be changed to reduce the cost. • Mr Flood highlighted the challenge that banks will not lend if the price is volatile, and a floor provides certainty for the banks that debt is covered. • Ms Aitken suggested another curve which has a cap and a floor and a steep part which responds quickly to changing conditions. • Mr Skinner considered that the technological change and attempt to constrain emissions caused the current capacity issue. He agreed to getting the deadband right for investors while ensuring the price drops 	

Item	Subject	Action
	<p>off at a reasonable point so consumers to not subsidise risks taken by investors.</p> <ul style="list-style-type: none"> Mr Tan considered that there is a high payback at the recent NCESS price and rapid capital recovery allows investments. Ms Gilchrist considers that option 7 with no floor is likely to mute price signals to retire, meaning the transition to zero could be slowed. <p>Mr Robinson presented options evaluation against the design principles. He noted that option 4 seems to be the best option and noted the strong support for option 7 from the WICRWG.</p> <p>Mr Robinson noted the review of the price curve parameters and the proposal that the price curve be considered at the time of the BRCP Benchmark Capacity Providers review.</p> <ul style="list-style-type: none"> Mr Carlberg agreed with the general shape of option 4, but had doubts regarding where the RCP is set at the RCT, the length of the deadband and the angle of the curve. Mr Carlberg noted that, because the RCP changes yearly, investors have uncertainty regarding how much they will get paid. <p>The Chair considered that this market design actually has more certainty than prices set by capacity auctions.</p> <p>Mr Robinson discussed transitional arrangements for facilities commissioned since 2019 and noted that their downside risk does not change. He considered that there is limited arguments for a transitional arrangement as there is upside for facilities commissioned since 2019.</p> <ul style="list-style-type: none"> Mr Schubert considered that a price cap and floor provides certainty for investors and consumers and would like to see this in the future curve. He considered that facilities will receive a windfall gain and that there is an argument for a floor and a cap for existing facilities. Mr Skinner disagreed that there should be a floor, noting that existing facilities have already made their investment decisions on the basis of the price going to zero at 130% of the target. <p>Mr Robinson presented the proposed inflation adjustment for transitional facilities noting the differences in RBA forecasts and actuals. He noted that the proposal is to introduce a lookback adjustment to reflect the difference.</p> <ul style="list-style-type: none"> Mr Skinner, Mr Carlberg, Mr Peake and Mr Edwards supported the proposal. Ms Aitken asked if this should include delays caused by delays in transmission build. <p>The Chair invited Ms Aitken to provide ideas of how to incorporate this.</p>	
6	<p>Price implications</p> <p>Mr Robinson presented a comparison of the current vs proposed price curves. He noted that the RCP under the proposed price curve would have been higher than the current price curve in previous years.</p>	

Item	Subject	Action
	Mr Robinson noted that EPWA will take on the WICRWG feedback and present the final proposal in January prior to consultation.	
7	Modelling Approach <p>Mr Robinson presented the modelling approach noting that there are four key items to explore: revenue projections for technologies, capacity factors for facilities affected by emissions thresholds, effects of EPA thresholds and interaction with the CIS.</p> <p>The Chair noted there will be a proposal and the WICRWG will consider an alternative framework to the CIS to provide similar investment signals outside of the CIS.</p> <ul style="list-style-type: none">Ms Aitken asked whether the modelling assumes the ESROI policy stays in place noting this policy limits battery operation around 2029 while artificially constraining operation. <p>The Chair noted that there are new rules to be introduced around the Availability Duration Gap and was happy to discuss this with Ms Aitken.</p> <ul style="list-style-type: none">Mr Carlberg agreed with the approach and would like further consideration regarding how new flexible gas is captured in the capacity factor calculations.	
8	Next steps <p>The Chair noted that EPWA will present a final proposal in January and then present this to the MAC in February.</p>	
9	General Business <p>No general business was discussed.</p>	

The meeting closed at 11:30 am