



Level 45
152 St Georges Terrace
Central Park
Perth WA 6000

Postal address
PO Box 7096
Cloisters Square
Perth WA 6850

T 08 9469 9800
E info@aemo.com.au

8 July 2024

Ms Dora Guzeleva
Director Wholesale Markets
Energy Policy WA
energymarkets@dmirs.wa.gov.au

Dear Ms Guzeleva,

Review of Supplementary Reserve Capacity Provisions

Thank you for the opportunity to respond to Energy Policy WA's (EPWA) Consultation Paper, *2024 Review of Supplementary Capacity Provisions* (the Consultation Paper), published on 17 June 2024.

The Australian Energy Market Operator (AEMO) has engaged substantially with EPWA, providing a range of data and feedback around procurement, activation, and measurement of Eligible Services to support the Coordinator of Energy (Coordinator) in undertaking the review. AEMO appreciates that its input has been captured at various points in the Consultation Paper.

AEMO acknowledges that stakeholders' overall perception of the procurement process and the operation of the supplementary capacity scheme was positive, with lessons learnt from the 2022-23 supplementary capacity process resulting in better outcomes in the 2023-24 Hot Season.

As stated in AEMO's submission to the *2023 Review of Supplementary Reserve Capacity Provisions*, AEMO considers there remains a need for additional reserves to be available outside of the Hot Season, via an expanded supplementary capacity scheme or an alternative mechanism, as an additional safeguard to maintaining the security and reliability of the South West Interconnected System in adverse weather and supply conditions. AEMO would welcome the opportunity to continue to explore this issue with EPWA and our stakeholders at a future stage.

AEMO is generally supportive of the proposals in the Consultation Paper, which aim to enhance information flows and transparency, and improve efficiency in the procurement, activation and measurement of supplementary capacity services. Specific feedback related to each proposal is outlined further below, along with AEMO's comments on the benefits of an alternative 'activation only' service.

Proposal 1

AEMO supports Proposal 1, which aims to expand the pool of potential supplementary capacity providers, and welcomes the proposed rule amendment to facilitate AEMO access to Western Power data for the purposes of identifying potential providers.

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Proposal 2

AEMO generally supports EPWA's intent to align contract provisions relating to notification times and measurement of contracted supplementary capacity quantities with the requirements under the WEM Rules that apply to facilities operating in the Reserve Capacity Mechanism (RCM). AEMO notes that clauses 4.24.14 and 4.24.14A would apply in appropriate cases where, having regard to the specific characteristics of the facility providing the supplementary capacity and to any other matter that AEMO considers appropriate, a modified approach to matters such as baseline quantity and measurement of delivered quantities is justified. This flexibility is important to ensure that the participation of distributed energy resource aggregators is not unduly limited in future supplementary capacity procurement rounds.

Proposal 3

While AEMO supports Proposal 3, which aims to encourage more competition between providers and minimise the long-term cost of electricity in the SWIS, AEMO emphasises the need for these changes to be gazetted prior to AEMO triggering supplementary capacity to ensure that the policy intent is consistently and clearly captured in the upcoming round of supplementary capacity procurement.

Proposal 4

Regarding Proposal 4, while AEMO is supportive of EPWA's proposal to move from mandatory reviews to conducting reviews on an 'as needs' basis, it considers that the proposed drafting of new clause 4.24.21 may pose an uncertain and unnecessary administrative burden on AEMO. As drafted, the provision employs a term 'deficiency' that is not used in other monitoring provisions in the WEM Rules and does not provide an indication of materiality of issues that should be reported.

AEMO's preference is that the clause be removed, noting that AEMO is already obliged to provide a range of supplementary capacity documentation to the Coordinator as part of the Market Surveillance Data Catalogue; and a new clause is being proposed under the *Miscellaneous Amendments No.3* rules package to allow AEMO to proactively share Confidential Information with the Coordinator without having received a formal request under clause 10.4.6 of the WEM Rules. These provisions, supported by regular engagements between AEMO and EPWA, including drafting suggestions of an editorial nature being provided at officer level, provide adequate pathways for any potential issues with section 4.24 to be identified and communicated in a timely manner.

Alternative 'activation only' service

AEMO reinforces the need for flexibility in contracting Eligible Services, to provide AEMO with the best opportunity to ensure customer reliability is maintained during periods of high demand. As discussed in section 3.4 of the Consultation Paper, AEMO considers that an alternative supplementary capacity product that sits alongside the existing product would provide a valuable supplementary service that balances flexibility and efficiency for both AEMO and the service provider.

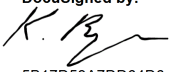
The alternative product would enable providers who cannot commit to the standing obligations around availability to provide services and receive remuneration on an 'activation only' basis. In times of Low Reserve Conditions, these are valuable megawatts that may assist in meeting forecast peak conditions, while reducing or avoiding the need for more significant interventions. Incorporating this service in the tender process is intended to improve the efficiency and timing of procuring this

service, noting that the alternative approach is not targeted at the existing or prospective pool of suppliers for the existing 'availability plus activation' product. AEMO's proposal is consistent with EPWA Proposal 1, which aims to increase the pool of potential providers and better achieve Wholesale Market Objectives specified in clause 1.2.1.(a), (b) and (d) of the WEM Rules.

Attachment 1 below provides proposed drafting of relevant provisions in section 4.24 that would facilitate the inclusion of an alternative 'activation only' Eligible Service in AEMO's tender processes. The proposed drafting has been informed by AEMO's experiences in managing supplementary capacity procurement processes in multiple years. As with other proposed changes, AEMO recommends that the commencement of updated provisions occurs as a matter of expediency to allow for their effective implementation in the 2024-25 supplementary capacity process.

Should you have any queries about this submission, please contact Mena Gilchrist, Manager Regulatory Affairs at mena.gilchrist@aemo.com.au.

Yours sincerely,

DocuSigned by:

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Kate Ryan

Executive General Manager – WA and Strategy

Attachment 1: AEMO suggested draft amendments

EPWA's proposed changes as published in the Consultation Paper are maintained (~~deleted text~~, added text):

AEMO proposed changes have been indicated in **blue font**

- 4.24.7. AEMO must prescribe the tender form to be used by those applying to provide Eligible Services. This form must require the provision of the following information:
- (a) the name and contact details of the applicant;
 - (b) the nature of the Eligible Service to be provided;
 - (bA) **whether the Eligible Service is being offered on an:**
 - i. **availability and activation basis; or**
 - ii. **activation-only basis;**
 - (c) **[blank]; the amount of the Eligible Service available;**
 - (d) the maximum number of hours over the term of the Supplementary Capacity Contract that the Eligible Service will be available;
 - (e) **for an Eligible Service being offered on an availability and activation basis:**
 - i. ~~(e)~~ **the maximum number of hours on each day during the term of the Supplementary Capacity Contract that the Eligible Service will be available; and**
 - ii. ~~(f)~~ **the time of each day during the term of the Supplementary Capacity Contract that the Eligible Service will be available;**
 - iii. **the quantity of supplementary capacity being offered;**
 - iv. **the values of:**
 - 1. **the availability price for the Eligible Service expressed in dollars; and**
 - 2. **the activation price for the Eligible Service, expressed in dollars per MW per hour of activation, where this price must reflect direct or opportunity costs incurred;**
 - (f) **for an Eligible Service being offered on an activation-only basis:**
 - i. **any restrictions on the availability of the Eligible Service, including the days during a typical week when the Eligible Service will not be available for activation;**
 - ii. **the maximum quantity of supplementary capacity being offered; and**
 - iii. **the value of the activation price for the Eligible Service, expressed in dollars per MW per hour of activation;**
 - (g) any information required to complete the relevant standard form Supplementary Capacity Contract for the Eligible Service and the applicant,

together with full details of any amendments to the standard form Supplementary Capacity Contract required by the applicant;

- (gA) the notification time for activating the Eligible Service;
- (h) the mechanism for activating the Eligible Service;
- (i) the mechanisms available for measuring the Eligible Service provided;
- (j) [blank]; ~~the values of:~~
 - i. ~~the availability price for the Eligible Service expressed in dollars, which is to be set at zero for an Eligible Service being offered on an activation only basis; and~~
 - ii. ~~the activation price for the Eligible Service, expressed in dollars per MW per hour of activation, where this price must reflect direct or opportunity costs incurred;~~

~~where the activation price plus:~~

 - iii. ~~the availability price; divided by~~
 - iv. ~~the lesser of:~~
 - 1. ~~the number of hours specified in the advertisement for the call for tenders under clause 4.24.6(d); and~~
 - 2. ~~the number of hours specified for the Eligible Service in accordance with clause 4.24.7(d);~~

~~must not exceed the maximum contract value per hour of availability specified in the advertisement for the call for tenders under clause 4.24.6(g);~~
- (k) the location of the Eligible Service and any associated Transmission Node Identifier and any associated NMI, where applicable;
- (l) evidence that the Eligible Service will have access to a network for the contract period, where applicable; and
- (m) the applicant's consent for Western Power to provide AEMO with relevant information, including information related to meters, meter readings and status of access arrangements, where applicable.

4.24.8. In determining the result of a call for tenders and entering into Supplementary Capacity Contracts **for Eligible Services being offered on an availability and activation basis:**

- (a) AEMO must only accept an offer for the provision of Eligible Services;
- (b) AEMO must **only not** accept an offer for the provision of an Eligible Service **being offered on an availability and activation basis** if AEMO is ~~not~~ satisfied that the Eligible Service will be available during times of system peak demand coinciding with the shortfall period;

- (c) subject to clauses 4.24.8(a), 4.24.8(b) and 4.24.9, AEMO is to seek to enter into the lowest cost mix of Supplementary Capacity Contracts that:
- i. will meet the requirement for supplementary capacity; or
 - ii. will, if it is not possible to meet the requirement for supplementary capacity, minimise the remaining Reserve Capacity shortfall,
- where the cost of each Supplementary Capacity Contract is to be defined to be the sum of:
- iii. the availability price; plus
 - iv. the product of the activation price and the lesser of:
 1. the number of hours specified in the advertisement for the call for tenders under clause 4.24.6(d); and
 2. the number of hours specified for the Eligible Service in the relevant tender form in accordance with clause 4.24.7(d); and
- (d) AEMO must be reasonably satisfied that the provider of the Eligible Service has access to a network, where applicable.

4.24.8A In determining the result of a call for tenders and entering into Supplementary Capacity Contracts for Eligible Services being offered on an activation only basis, AEMO must:

- (a) only accept an offer for the provision of Eligible Services;
- (b) have regard to:
 - i. any restrictions on availability specified for the Eligible Service in the relevant tender form in accordance with clause 4.24.7(f)(i); and
 - ii. the notification time for activating the Eligible Service specified in the relevant tender form in accordance with clause 4.24.7(gA); and
- (c) be reasonably satisfied that the provider of the Eligible Service has access to a network, where applicable.

[...]

4.24.11B. Following the completion of a tender process called under clauses 4.24.2(a) or 4.24.2(b)(i) and any negotiations in accordance with clause 4.24.2(b)(ii), as applicable, AEMO must publish on the WEM Website the following information for each Supplementary Capacity Contract:

- (a) the name of the service provider that has been contracted to

- provide supplementary capacity;
- (b) the quantity contracted under the Supplementary Capacity Contract;
 - (c) whether the contract was entered in through a tender process or direct negotiation; ~~and~~
 - (d) the type of the Eligible Service contracted.;
 - (e) the availability price for the Eligible Service expressed in dollars, as defined in clause 4.24.7(j)(i); and
 - (f) the activation price for the Eligible Service, expressed in dollars per MW per hour of activation, as defined in clause 4.24.7(j)(ii).