



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

15 August 2024

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

Dear Ms Guzeleva,

Consultation Paper – WIC Review

The Australian Energy Market Operator (AEMO) appreciates the opportunity to provide a submission on the Wholesale Electricity Market Investment Certainty Review (WIC Review) Initiatives 1 and 2 Consultation Paper, published on 18 July 2024.

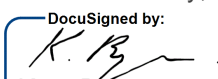
Energy Policy WA (EPWA) has requested feedback on ten proposals under two initiatives, which are aimed at enhancing investment certainty for new low emissions energy technologies and firming capacity in the Wholesale Electricity Market (WEM). AEMO supports the intent of the WIC Review and is generally supportive of the proposals under Initiatives 1 and 2.

Attachment 1 outlines AEMO's high-level comments on each proposal, which includes recommendations for consideration when EPWA finalises the detailed design and drafts the amending WEM Rules. For example, AEMO suggests the design of the Initiative 2 proposals and implementation timing is considered against the current Network Access Quantities arrangements and the 5-year fixed Facility Reserve Capacity Price.

AEMO also notes that the Reserve Capacity Price is only one factor driving investment and recommends that the initiatives are holistically assessed against other mechanisms seeking to influence investment outcomes. This includes changes to the Planning Criterion, the Benchmark Reserve Capacity Price (and technology), and the Australian Government's Capacity Investment Scheme. It will also be essential for the investment certainty measures to be assessed against any potential for increased costs to consumers, in addition to the benefits of ensuring a reliable, lower emissions power supply.

AEMO looks forward to continuing to work with EPWA and industry on the detailed design of the proposals and subsequent changes to the WEM Rules. If you would like to discuss any matters raised in this submission, please contact Mena Gilchrist at mena.gilchrist@aemo.com.au.

Yours sincerely,

DocuSigned by:

Kate Ryan
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Executive General Manager – Western Australia & Strategy

Attachment 1: AEMO's response to the WIC Review Consultation Paper Proposals



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Attachment 1 – AEMO’s response to the WIC Review Consultation Paper Proposals

WIC Review Proposals	AEMO comments and questions
<p>Initiative 1 – Reserve Capacity Price (RCP) curves</p>	<p><u>General Comments</u></p> <ul style="list-style-type: none"> AEMO notes that the proposed amendments to the RCP curve are likely to send stronger investment signals to the market, promote greater investor confidence and deliver stronger reliability outcomes for consumers. As highlighted in the above letter, these outcomes should be assessed against any potential increased costs to consumers and other measures to increase investment certainty. AEMO does not anticipate any material issues for the implementation of the two new curves, provided Energy Policy WA (EPWA) is able to share the draft rules and/or price formulations with AEMO as soon as possible. AEMO recommends commencing the final amending rules together with the Flexible Capacity rules in January 2025. It will be difficult to implement these measures for the 2025 Reserve Capacity Cycle if there is significant delay.
<p><i>Proposal 1 – RCP at RCT</i></p>	
<p>Set the Peak RCP to 100% of the Peak Benchmark Reserve Capacity Price (BRCP) if the number of Peak Capacity Credits issued equals the Peak Reserve Capacity Target (RCT).</p>	<ul style="list-style-type: none"> AEMO supports the intent of this proposal.
<p><i>Proposal 2 – RCP deadband</i></p>	
<p>Set the Peak RCP to 100% of the Peak BRCP when the number of Peak Capacity Credits provided is between 95% and 105% of the Peak RCT.</p>	<ul style="list-style-type: none"> AEMO supports the intent of this proposal.



Proposal 3 – RCP cap	
<p>Set a maximum Peak RCP at 150% of the Peak BRCP, when the number of Peak Capacity Credits issued is 85% of the Peak RCT.</p>	<ul style="list-style-type: none"> • AEMO supports the intent of this proposal. • AEMO notes that price may not be the only factor incentivising investment, for example, location is critical - the level of network constraints will also be a key factor as they will determine the Facility's Network Access Quantity (NAQ). AEMO therefore suggests consideration is given to how Initiative 1 interacts with the NAQ framework.
Proposal 4 – RCP floor	
<p>Set a minimum Peak RCP at 50% of the Peak BRCP, when the number of Peak Capacity Credits provided is greater than or equal to 115% of the Peak RCT</p>	<ul style="list-style-type: none"> • AEMO considers stakeholders to be best placed to advise on the frequency of recalculating the RCP floor price and the method for determining the level of floor price. • EPWA's preferred options for a non-zero price floor, less frequent floor price recalculations and a symmetrical floor price/price cap arrangement are likely to provide greater investment certainty for the market.
Proposal 5 – Flexible Capacity RCP curve	
<p>5.1 Allow any new facility that provides Flexible Capacity to receive (on request) a fixed RCP for ten years</p> <p>5.2 Set a maximum Flexible RCP at 160% of the Flexible BRCP, when the number of Flexible Capacity Credits issued is 85% of the Flexible RCT</p> <p>5.3 Set the Flexible RCP to 100% of the Flexible Benchmark RCP where the number of Flexible Capacity Credits issued is 100% of the Flexible RCT</p> <p>5.4 Set the minimum Flexible RCP on the same basis as the Peak RCP</p>	<ul style="list-style-type: none"> • AEMO supports the intent of this proposal. • AEMO notes that the proposed design of the Flexible Capacity RCP curve will likely achieve the intended outcome of not awarding top-up payments to providers in times of excess Flexible Capacity.



Proposal 6 – Review of RCP curve parameters	
Include review of the RCP curves in the Coordinator’s regular review of the BRCP reference technology.	<ul style="list-style-type: none"> • AEMO supports including the review of the RCP curves as part of the Coordinator of Energy’s regular review of the BRCP reference technology.
Proposal 7 – Transitional pricing arrangements	
7.1 Adjust existing transitional pricing arrangements to include a lookback adjustment for actual inflation.	<ul style="list-style-type: none"> • If EPWA does proceed with its proposal for a new transitional price arrangement, AEMO is supportive of the formulation of the lookback adjustment. AEMO has assumed that EPWA will specify the data source to be used for the actuals (as per the forecasts).
7.2 There will be no new transitional arrangements for existing facilities not already subject to transitional pricing arrangements.	<ul style="list-style-type: none"> • AEMO has also considered the timings for the lookback adjustment and notes that a 2-year lookback will likely be required. This is based on timings for AEMO’s determination of the Transitional Ceiling Price. <ul style="list-style-type: none"> ○ For example, for the 2024 Reserve Capacity Cycle, AEMO determined the price for the 2026 Capacity Year based on the forecast inflation for June 2026. ○ For the 2025 Reserve Capacity Cycle, AEMO will calculate the Transitional Ceiling Price for the 2027 Capacity Year based on the forecast inflation from June 2027 and the inflation adjustment using the previous forecast Consumer Price Index (CPI). AEMO will only have actual CPI data for the calculation for June 2025 (i.e. not June 2026).
Initiative 2 - Ten-year Reserve Capacity Price guarantee for new technologies	
	<p><u>General Comments</u></p> <ul style="list-style-type: none"> • AEMO is generally supportive of Initiative 2, which has been interpreted as separate to (rather than an extension of) the current 5-year fixed RCP arrangement. AEMO would appreciate clarity from EPWA on this, as well as confirmation on: <ul style="list-style-type: none"> ○ whether the guarantee applies to either of (or both) Peak Capacity and Flexible Capacity on the commencement day of the 10-year RCP guarantee for new technologies; and ○ how (or if) this initiative will interface with the current 5-year fixed RCP arrangement. • While AEMO will aim to implement the changes under Initiative 2 for the 2025 Reserve Capacity Cycle, the associated rules will need to be finalised before AEMO can confirm whether the changes can be commenced in time.



Proposal 8 – Eligibility for RCP guarantee	
<p>8.1 Allow any new facility that provides Flexible Capacity using a renewable fuel source to receive (on request) a fixed RCP for ten years.</p> <p>8.2 Require renewable-fuelled facilities seeking the ten-year fixed RCP to provide in each Reserve Capacity Cycle evidence of 100% renewable fuel supply.</p>	<ul style="list-style-type: none"> • AEMO suggests that consideration is given to allowing the 10-year price to be fixed as a minimum price guarantee, rather than as a cap. This would allow the recipient of a 10-year fixed RCP to still benefit in the event the RCP increases above the fixed level over time. • AEMO notes that the eligibility criteria may not be practicable for all renewable energy facilities or renewable-fuelled facilities, or for hybrid facilities (e.g. comprising Electric Storage Resources (ESR) and Solar). <ul style="list-style-type: none"> ○ AEMO would appreciate clarification on the implications for the recipient if a facility cannot achieve or show evidence of 100% renewable fuel supply. For example, a hybrid solar or wind farm may, from time to time, be required to draw from the grid, or an ESR. ○ to be charged by a coal or gas generator, in order to meet their market participation requirements (i.e. during a cloudy day or a wind drought).
Proposal 9 – Duration requirement	
<p>Require a facility requesting the ten-year fixed RCP to provide evidence that it can provide firm output for at least 120% of the prevailing ESR Duration Requirement.</p>	<ul style="list-style-type: none"> • AEMO notes the proposed 120% eligibility threshold for new ESR projects is designed to incentivise entry of longer duration projects. However, given the dynamic nature of the ESR Duration Requirement, the 120% threshold may not represent long-term value to consumers if the duration requirement was to change by more than 120% over the 10-year period. • Reforms to the RCM as part of the RCM Review include an obligation on AEMO to forecast in the WEM Electricity Statement of Opportunities the ESR Duration requirement applying to new facilities in each year of the outlook period. A forecast ESR Duration may offer an alternative to a set percentage threshold, to reflect system needs more clearly. • AEMO assumes that the pricing arrangements will have no associated guarantees on the certification of the fixed RCP facilities.
Proposal 10 – Implementation	
<p>The WICRWG proposed longer duration ESR facilities requesting a ten-year fixed RCP together with proposed floating price facilities for Network Access Quantities (NAQ) purposes.</p>	<ul style="list-style-type: none"> • AEMO supports the proposal to consider eligible proposed fixed-price facilities alongside floating price proposed facilities for NAQ purposes, and their eligibility for NAQ if there are <u>insufficient</u> existing and committed facilities to meet the RCT (based on the existing priority order).

- AEMO notes that implementing the 10-year fixed RCP guarantee for new technologies will be more complicated than effecting the changes to the RCP curve, as they will require changes to automated processes that support the NAQ Model.
- AEMO anticipates that the draft rules will clarify whether a recipient can request a combination of floating price and fixed price in respect of each of the Flexible Capacity and Peak Capacity products, and how this will work with the transitional pricing arrangements.
- AEMO recommends further consideration is given to how the 10-year guarantee will interact with the current 5-year fixed Facility RCP (under which the facility is not required to be flexible, renewable or of long duration). For example, will recipients of the 5-year fixed Facility RCP retain a lower priority order for NAQ purposes?