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THE WHOLESALE ELECTRICITY MARKET INVESTMENT CERTAINTY REVIEW (INITIATIVES 1 AND 2) CONSULTATION PAPER

Synergy welcomes the opportunity to provide feedback on Energy Policy WA's (EPWA's) *Wholesale Electricity Market Investment Certainty Review (Initiatives 1 and 2) Consultation Paper (Paper)*. The Paper sets out EPWA's findings and recommendations arising from analysis of the first two reform initiatives announced by the Minister for Energy on 9 May 2023¹.

Synergy's comments on the proposals within the Paper are provided below.

Initiative 1: Reviewing the Reserve Capacity Price (RCP) curve to determine if it needs to be adjusted to send sharper signals for investment when demand for new capacity is stronger.

Synergy supports Initiative 1 and considers that the review of the RCP curve is timely to support new investment into the South West Interconnected System (SWIS). The proposed RCP curve should provide greater investment certainty and reduce financing barriers for projects in the SWIS, without unnecessarily increasing costs to consumers.

Peak Reserve Capacity Price Curve

Proposals 1 to 4 in the Paper outline adjustments to the current RCP curve, which signals the need for new capacity to meet peak demand and overall energy supply. Going forward, this will be referred to as the Peak RCP curve to differentiate it from the newly introduced Flexible RCP curve which is intended to incentivise investment in Flexible Capacity.

Synergy is generally supportive of Proposals 1 to 3 regarding the parameter settings of the Peak RCP curve, being the value of the Peak RCP when the mechanism is in balance, the introduction of a Peak RCP deadband, and the maximum value of the Peak RCP.

Proposal 4 as outlined in the Paper, introduces a non-zero minimum value of the Peak RCP. Synergy supports this proposal at high level and agrees with the policy intent of providing a level of certainty for investors in the SWIS. However, Synergy is also cognisant of the need to balance costs to consumers and customer value. In recognition of the unique nature of Demand Side Programs (DSPs), and the expectation of lower investment costs and risks for

¹ Government of Western Australia, "SWIS Demand Assessment" (2023), <https://www.wa.gov.au/government/document-collections/swis-demand-assessment>

a DSP, Synergy considers that DSPs should be excluded from capacity credit allocation when there is a significant surplus capacity and the minimum RCP binds. In such circumstances, DSP does not contribute to system security or electricity supply and DSP dispatch would be extremely improbable.

Lastly, Proposal 4 also discusses the parameters for setting the minimum Peak RCP. Synergy considers the proposal to set the minimum Peak RCP using a fixed proportion of the Benchmark Reserve Capacity Price (**BRCP**) is a reasonable approach.

Flexible Reserve Capacity Price Curve

Proposal 5 sets out the parameters of the Flexible RCP curve.

Synergy is supportive of the proposed parameters of the Flexible RCP curve. However, Synergy seeks clarification on the interactions of Proposal 5.1 and Initiative 2, discussed further below.

Review of RCP curve parameters

Proposal 6 intends that the Coordinator of Energy conducts a review of the Peak and Flexible RCP curves concurrently with the review of the BRCP reference technology. Presently, the review of the BRCP reference technology is conducted every three years. Synergy also notes that the BRCP methodology is reviewed every five years by the Economic Regulation Authority.

Synergy supports conducting the reviews of both RCP curves and the BRCP reference technology concurrently. Synergy also considers that the review of the BRCP methodology should be conducted in parallel with these reviews to facilitate coherence. Additionally, Synergy suggests an interval of five years between reviews to bolster market confidence.

Transitional pricing arrangements

Proposal 7.1 introduces a lookback adjustment for actual inflation to the transitional floor and ceiling prices that apply to existing Transitional Facilities. This adjusts the transitional floor and ceiling prices for actual inflation based on forecasts by the Reserve Bank of Australia. Proposal 7.2 confirms there will not be a new set of transitional arrangements to coincide with the implementation of the proposals under Initiative 1.

Synergy is supportive of both proposals.

Initiative 2: A ten-year RCP guarantee for new technologies, such as long-duration storage.

Synergy is generally supportive of Initiative 2 and agrees that certainty about long-term capacity revenue is important in encouraging the entry of new technologies and renewable generators in the SWIS. The policy implementation needs to ensure that the eligibility criteria does not inadvertently preclude entry of “clean dispatchable technologies” or impose additional obligations and financial risks.

Eligibility for the ten-year RCP guarantee for new technologies

Proposals 8 to 10 outline the eligibility requirements for facilities seeking the ten-year RCP guarantee. However, Synergy seeks clarification in relation to the following:

- Proposal 8.1 and Proposal 5.1 state that new facilities providing Flexible Capacity are eligible to receive a fixed RCP for 10 years. However, Proposal 8.1 contains the additional requirement that new facilities must utilise a renewable energy source. Synergy would appreciate clarification on whether Proposal 8.1 supersedes Proposal 5.1.
- Do the proposed eligibility requirements for the ten-year RCP guarantee imply that Electric Storage Resources (**ESR**) facilities must be backed by one or more renewable generators via power purchase agreements (**PPAs**)?
- Does Proposal 10 apply only to ESR requesting the ten-year RCP guarantee, or to all facilities seeking the guarantee?

Additionally, Synergy suggests the following for consideration:

- The ten-year RCP guarantee be available to all “clean dispatchable capacity”, not only to facilities providing Flexible Capacity. This would align with the objective of the Australian Government’s Capacity Investment Scheme (**CIS**).
- Consistent with the CIS approach, the proposal should specify that ESR without a renewable PPA are still eligible for the RCP guarantee. Synergy considers that requiring ESRs to have a renewable PPA will create additional investment barriers as it introduces additional PPA risks associated with off taker agreements. This could deter or delay investments in ESRs within the SWIS. Further, requiring ESRs to have a renewable PPA may also result in more supply volatility in the SWIS as more wind and solar are brought online to meet the PPA requirements.

Conclusion

Synergy greatly appreciates the opportunity to provide comment on EPWA’s proposals and looks forward to continued engagement within the WEM Investment Certainty (**WIC**) Review Working Group and the next stage of formal consultation.

Yours sincerely



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