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Ms Sara O'Connor
Economic Regulation Authority
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Dear Sara O'Connor

2020 review of two market rules intended to incentivise the availability of generators

Synergy welcomes the opportunity to comment on the 2020 review of incentives to improve the availability of generators (**Draft Report**) and supports the need for an efficient mechanism to incentivise Market Participants to provide generator availability during periods of system stress, "such as when demand is high and excess capacity is limited".

In accordance with the market rule 4.11.1E, the Economic Regulation Authority (**ERA**), in consultation with the Australian Energy Market Operator (**AEMO**), have reviewed market rules:

- (a) 4.11.1(h), to be referred to as the reserve capacity reduction clause; and
- (b) 4.26.1C, to be referred to as the Refund Exempt Planned Outage (**REPO**) clause,

and have proposed three recommendations in the Draft Report:

- (a) reduction of the outage threshold for the reserve capacity reduction clause to zero to enable AEMO to "consider the historical outages of all generators, not just the few generators with outages above the threshold, when assigning reserve capacity";
- (b) development of guidance notes "to both support AEMO in how it applies to the reserve capacity reduction clause, and to provide greater transparency to the market"; and
- (c) retainment of the existing REPO clause, noting the ERA's contention that increasing the threshold may enable generators to exercise market power and drive up electricity prices.

Synergy considers that the Draft Report should not be progressed in its current form, as further consideration should be given to:

- recommendation (a), with respect to the suitability of the proposal, inadvertent impacts to the Network Access Quantity (NAQ) framework and the negative impact a zero threshold may pose to new investments in the WEM;
- recommendation (b), with respect to the need to maintain AEMO's discretion in exercising the reserve capacity reduction clause; and
- recommendation (c), with respect to prevailing measures that would render obsolete, the risk of generators with market power taking more planned outages than necessary if the REPO count limit was raised.

Recommendation (a): Reduction of the reserve capacity reduction clause

Suitability of the proposal:

Synergy agrees with the ERA's finding that the existing threshold for the reserve capacity reduction clause does not provide appropriate targets for facilities outside of scheduled generators. However, Synergy does not consider the proposal to reduce the reserve capacity threshold to zero an appropriate measure to mitigate against this issue.

Under market rule 4.11.1E, the ERA is limited to reviewing the operation of clause 4.11.1(h). However, Synergy considers that prevailing issues would be better managed as part of a comprehensive review of the entire mechanism used to incentivise generator availability which would require more substantive changes outside of just clause 4.11.1(h). This would ideally include:

- (a) a review of the existing 14 hour fuel availability requirement which is no longer fit for purpose given the increasing levels of small and large scale intermittent generation in the WEM. Scheduled generators are increasingly having to contract for fuel volumes, simply to satisfy certification requirements despite it being highly unlikely that a scheduled generator will be required for 14 consecutive hours to maintain reliability; and
- (b) development of a new modelling based approach to incentivise generator availability specifically during periods of system stress.

Given that there is no obligation for the ERA to review the clauses again, Synergy prefers that the existing reserve capacity reduction clause is retained and that the ERA conduct a separate, wholistic review of the mechanism to incentivise generator availability.

NAQ Framework:

The review of the two Market Rules to incentivise the availability of generators was conducted at a point in time in which the NAQ framework didn't exist. However, with the introduction of the NAQ regime as part of the Energy Transformation Strategy, the ERA should consider its proposal in light of long term impacts a reduction in Capacity Credits may have on a facility's NAQ.

Under proposed clause 4.1A.2 of the Tranche 3 Amending Rules¹, a facility's initial NAQ will be set at a level equal to the Capacity Credits assigned for the 2022 Capacity Year (assuming

¹ https://cdn-au.mailssnd.com/26738/10aHEsUHhmMvyhnujR39huA26OJ_J6456HG0iKsJt50/3340644.pdf

the NAQ regime will commence from the 2023 Capacity Year). Further, the NAQ functions such that if a Facility has reduced Capacity Credits in one year, they may not be able to recover these NAQs until there is spare capacity. Therefore, a Market Participant that resolves their availability issue or has lower availability due to prudent management, would be unduly penalised under this approach. This magnifies the financial risk a Market Participant faces if the reserve capacity reduction clause is changed to 0%, thereby exposing all facilities to the risk of reducing not only their Capacity Credits, but also future NAQs.

Market Participants would bear significantly less risk if the existing reserve capacity reduction clause was retained.

New investments:

The consequence of the proposed change is that all facilities with historical outages will be exposed to the potential reduction or removal of reserve capacity credits to the financial detriment of the Market Participant. Synergy is concerned that this conflicts with the WEM Objective to facilitate the efficient entry of new competitors as it may disincentivise new investment into the WEM by introducing material financial uncertainty at every capacity certification, including potential downstream impacts to the assignment of NAQs.

Synergy considers it unreasonable for existing and new Market Participants to bear such risk and strongly encourages the ERA re-evaluate its proposal in light of this.

Recommendation (b): Guidance notes

Synergy reiterates its view that the reserve capacity reduction clause should be left unchanged in preference of a wholistic review of the mechanism to incentivise generator availability. If the ERA chooses to adopt this recommendation, then development of guidance notes will not be necessary.

However, if the ERA continues to pursue its original recommendation to publish guidance notes, then Synergy raises the following concerns for the ERA's consideration.

Synergy recognises the high level of technical complexity involved with analysing historical outages and its impact to system security and reliability, particularly considering the wide range of technologies on the WEM. For these reasons, Synergy envisions that guidance notes can only be broad and will be unable to capture all technicalities and exceptions that may arise. AEMO's continued use of discretion is therefore strongly encouraged and should be made explicit in the market rules.

Synergy also understands that the ERA is working in conjunction with AEMO to develop guidance notes, however, this process is not subject to a formal consultation process. Given that these guidance notes may have significant impacts to Market Participants, Synergy requests that stakeholder consultation be made essential. More specifically, it would be greatly beneficial for Market Participants if these guidance notes can be made available at the same time as the submission of the Rule Change Proposal.

Despite the assistance of guidance notes, implementation of a zero threshold would inadvertently expose AEMO to significant administrative burden as they may be required to review all generators and their historical outages within the existing, limited, certification timeframe. Stringent timelines may create unnecessary pressure on AEMO, leading to the assessment process potentially resolving to a mere tick box exercise and providing insufficient time for AEMO to assess generators that require more comprehensive oversight. More critically, the existing issue of dense timeframes aggravated by potentially significant quantities of facilities for review, may lead to erroneous decisions.

Recommendation (c): Retainment of the existing REPO Clause

In determining the draft proposal to leave the REPO clause unchanged, the ERA has disregarded an increase to the REPO count limit due to the potential risk for “generators with market power” to “use this change to the REPO clause to physically withhold capacity from the market to increase electricity prices”.

Synergy asserts that existing measures in place would make the realisation of this risk unlikely.

Market Participants are restricted from requesting unnecessary planned outages by WEM Rule 3.18.7, a category C civil penalty provision that requires outage plans to represent the “good faith intention of the Market Participant...that the relevant capacity or capability of its Equipment List Facility will be unavailable for service for the duration of the outage period described in clause 3.18.6(d) for the purpose of Outage Facility Maintenance”.

Similarly, WEM Rule 3.18.8 is also a category C civil penalty provision that requires the Market Participant to inform AEMO and withdraw the relevant Outage Plan as soon as practicable if it “no longer intends that the relevant capacity or capability of its Equipment List Facility will be unavailable for service for the purpose of Outage Facility Maintenance”.

Further, all planned outages are reviewed and subject to approval by AEMO, which should be relied upon to critically review and question excessive requests for planned outages.

It is also arguable that the REPO clause itself may act as a barrier for Market Participants to conduct prudent maintenance. It may be more sensible to complete longer outages or have more outages during Autumn and Spring when the system is relatively more reliable so that they are available for service during winter and summer peaks when plant is most required. Placing unnecessary limitations on the REPO clause may incentivise adverse behaviour where Market Participants choose to bundle multiple faults into one large outage as opposed to opting for Opportunistic Maintenance to resolve issues in a more timely manner. Such practice would likely increase the level of Forced Outages with resultant increased impact on System Security and Reliability.

For these reasons, Synergy sees benefit in raising the REPO count limit. This would enable generators to undertake more planned outages and would likely improve future generator availability at times when the generation is most needed. Synergy suggests that the ERA review its decision to leave the REPO clause in its current form and instead consider increasing the count limit.

Should you require additional information regarding this submission, please contact Jo-Anne Chan, Senior Regulatory Analyst, at jo-anne.chan@synergy.net.au.

Yours sincerely



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