

## Wholesale Electricity Market Rule Change Proposal Submission

**RC\_2019\_03**

### Method used for the assignment of Certified Capacity Credits to Intermittent Generators

#### Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: [support@rcpwa.com.au](mailto:support@rcpwa.com.au)

Post to: Rule Change Panel  
Attn: Executive Officer  
C/o Economic Regulation Authority  
PO Box 8469  
PERTH BC WA 6849

#### 1. Please provide your views on the proposal, including any objections or suggested revisions.

Synergy welcomes the opportunity to provide feedback in response to the call for first round submissions: RC\_2019\_03 – Method used for the assignment of Certified Capacity Credits (CRC) to Intermittent Generators (**Proposal**).

Synergy is supportive of the Proposal and considers the proposed changes necessary to:

- i. correct shortcomings in the current Relevant Level Methodology (**RLM**), which can lead to material forecasting errors;
- ii. account for the effects of the rapidly changing generation mix in the South West Interconnected System (**SWIS**), including uptake in intermittent generation and solar photovoltaics (**PV**); and
- iii. more accurately accredit intermittent generators based on their contribution to system adequacy in the SWIS.

Progression of this Proposal is also likely to minimise the risk of these issues being exacerbated by increasing intermittent generation share and potential distortion of future

investment signals. Further, with the introduction of the Network Access Quantity (**NAQ**) framework it is critical that these reforms are in place prior to the 2022 Capacity Cycle to ensure that existing intermittent generators are able to secure NAQs (and Capacity Credits) that are reflective of the new RLM.

Although Synergy remains supportive of the rule change proposal, Synergy notes that aspects of the Proposal should be considered further, including:

- a) enhancing the determination of RL\_fleet;
- b) increasing transparency associated with AEMO's determination of scaled demand;
- c) ongoing assessment of loss of load expectation (**LOLE**);
- d) providing further clarity on proposed transitional requirements;
- e) optimising the RLM determination process; and
- f) other opportunities for improvement.

To assist the Rule Change Panel's (**RCP**'s) assessment of these items, Synergy submits the following suggestions.

**a) enhancing the determination of RL\_fleet**

Appendix 1, Part B Step 9 outlines the calculation of relevant level for the fleet of candidate facilities and facility groups. In accordance with step 9(d), the relevant level is calculated by taking the lower of:

- i. the median of the relevant level for each 12 month period in the preceding seven years; and
- ii. the relevant level based on the entire seven year period.

Synergy considers the use of the minimum of the two sample results unreasonable as it inadvertently, with no apparent justification, underestimates the fleet's capacity value. By extending the sample period from five to seven years, the impact from potential outliers is largely managed.

Synergy therefore does not support this methodology and suggests taking the median of the relevant level for each 12 month period in the preceding seven years.

**b) increasing transparency associated with AEMO's determination of scaled demand**

Although the Proposal aims to improve transparency of the RLM, and does so by removing the K and U parameters, there appears to be limited visibility on the methodology to determine scaled demand.

Synergy recommends the derivation of scaled demand, under Appendix 1 Part B Step 7, to be detailed in a WEM Procedure, including the mechanics on how AEMO intends to account for expected generation from distributed energy resources (**DER**) and the method upon which AEMO estimates behind-the-meter solar photovoltaic generation.

### **c) ongoing assessment of loss of load expectation (LOLE)**

The proposed RLM currently allows for four hours of LOLE, as a reflection of the duration requirement set for electronic storage resources under EPWA's proposed changes to the WEM Rules in order to be eligible for reserve capacity certification. Given that this is a new method with no historical data, Synergy suggests the appropriateness of this threshold be reassessed at the next RLM review as modelling becomes more refined.

### **d) providing further clarity on proposed transitional requirements**

It is unclear whether the Proposal remains contemplative of introducing transitional arrangements that would require the phasing in of the proposed RLM over a 3-year period to smooth financial implications, as set out under clause 4.11.2(c).

Synergy notes this clause may have been rejected upon prior consultation but if not, Synergy would not support this proposed transitional arrangement as it would adversely impact existing intermittent generators by assigning a lower than justified quantity of capacity credit, and hence NAQs, until they have fully transitioned to the new RLM.

Synergy considers it unnecessary to introduce transitional arrangements which would distort financial outcomes and recommends a direct transition to the new RLM upon approval.

### **e) optimising the RLM determination process**

Synergy understands that the proposed RLM is intended to be processed using proposed facilities which have submitted expressions of interest (**EOI**) under the reserve capacity mechanism and does not support this approach for the following reasons:

- i. proposed facilities are only accepted if the Reserve Capacity Target (**RCT**) is not reached. By assessing the quantity of existing Capacity Credits, understanding of impending retirements and knowledge of committed facilities, it is possible to reasonably estimate whether or not the RCT can be met without the inclusion of proposed facilities. Given that proposed facilities are only accepted if the RCT is not met, Synergy considers it unnecessary to include these facilities in the determination of RLM if they are deemed to be unrequired;
- ii. proposed facilities which have submitted an EOI differ from committed facilities in that they are able to withdraw participation and certification is not guaranteed;
- iii. withdrawal from the certification process negatively impacts existing and committed facilities by:
  - a. dampening capacity credits allocated, as illustrated under Appendix 4 of the Proposal; and
  - b. creating long term, and compounded, adverse effects on the NAQ allocation (and Capacity Credit outcomes) to the financial detriment of the market participant; and
- iv. this approach increases the uncertainty of capacity credit allocation for committed facilities.

Synergy considers it inequitable to penalise committed and existing facilities by allocating a lower CRC due to proposed facilities that are not required. Synergy therefore suggests the

proposed RLM is run based on existing (that are not due to retire) and committed facilities that have applied for capacity credits via the reserve capacity certification process.

**f) other opportunities for improvements**

- i. **Inconsistencies with the Tranche 2 Amending Rules:** Appendix 1 of the Proposal outlines the marked-up changes to the market rules. However, these mark-ups are based on the draft Amending Rules for the NAQ framework that have since been revised upon its gazettal in December 2020 (**Gazetted NAQ Rules**). Synergy recommends the Rule Change Panel addresses these inconsistencies that have arisen between the proposed Amending Rules and the recently Gazetted NAQ Rules to enable industry to more efficiently assess the proposed changes;
- ii. **Appendix 1, Part B Step 3:** reference to clause 7.13.1x3(a) does not exist under the Gazetted NAQ Rules and should be corrected;
- iii. **Appendix 1, Part B Step 3 to Step 6A:** Synergy notes that the adjustment to use the estimated values will still need to be undertaken for the historic data, and as such these adjustments will continue to be required until the seven year historic period no longer contains data before the new market (or before the NAQ Framework for GIA facilities). As such that drafting and proposed deletion of these clauses needs to reviewed to ensure that estimated values can be used for relevant historic data;
- iv. **Appendix 1, Part B Step 18:** this appears to have been modified such that steps 19 and 20 are no longer required. However, step 18 only accounts for the publication of a provisional forecast of the Trading Intervals and not the actuals, as previously required under Step 20. Synergy suggests Appendix 1, Part B Step 20 is retained; and
- v. **Clause 4.11.3C:** Synergy is supportive of a delay to the next RLM review, however, considers a postponement to April 2022 insufficient time to review the application of the proposed method in practice. Synergy considers it more appropriate to delay the next RLM review until 1 April 2023, upon which the new RLM will be in place for a more satisfactory length of time.

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**2. Please provide an assessment whether the change will better facilitate the achievement of the Wholesale Market Objectives.**

Synergy considers the Proposal will better facilitate the achievement of the Wholesale Market Objectives (a), (b), (c) and (d) as follows:

- a) **Economic efficiency:** The Proposal promotes the economically efficient safe and reliable production and supply of electricity in the SWIS by more accurately accrediting intermittent generators based on their contribution to system adequacy.
- b) **Encourage competition:** Correction of prevailing issues is likely to minimise the current distortion of investment signals and ensure correct allocation of future NAQs, hence facilitating the entry of new competitors.

- c) **Avoid discrimination:** The Proposal does not present barriers to new technologies and, by being technology neutral, facilitates the avoidance of discrimination.
  - d) **Minimise the long-term cost of electricity:** Proposed changes seek to rectify inaccuracies in the RLM that may lead to over or under allocation of capacity credits to intermittent generators, thereby minimising costs in the long-term.
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**3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.**

Synergy does not anticipate any material implications for business systems or costs.

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**4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.**

Should the Proposal be accepted as currently drafted, Synergy will be able to effect changes immediately.

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