



# Notice

21 December 2018

## Relevant Level Method Review

### Publication of draft report

The Economic Regulation Authority is proposing a change to how capacity credits are allocated to intermittent generators such as wind and solar farms.

The current method uses a formula to calculate the maximum number of capacity credits that can be allocated to intermittent generators. The formula uses the average output of an intermittent generator during a selected set of trading intervals over the past five years, and then adjusts the average output based on the variability of the intermittent generator's output.

The ERA has found several shortcomings in the current method that could allocate the incorrect quantity of capacity credits to intermittent generators. This is mainly because the method ignores the relationship between the output of intermittent generators and demand, both of which are weather-dependent. The current method can only produce reasonable results when there are very low numbers of intermittent generators present in an electricity system.

The number of wind and solar farms operating in the South West Interconnected System is increasing, making it more likely that the current method will not allocate credits correctly. If left unchanged, this could eventually affect the reliability of electricity supplies.

The ERA's proposed method would use historical data on demand and the output of intermittent and conventional generators to forecast an intermittent generator's contribution to reliability in the SWIS two years ahead. The intermittent generator's forecast contribution to reliability in the SWIS will determine the number of capacity credits it will receive.

The ERA is seeking stakeholder views on findings from its [review of the current relevant level method](#) and the ERA's proposal to change the relevant level method.

### Background

The South West Interconnected System is a small, geographically isolated electricity system. To provide a reliable supply of electricity for consumers, the Wholesale Electricity Market was designed to have sufficient local generation available to satisfy demand at all times, and to deal with supply emergencies.

The Australian Energy Market Operator (AEMO) procures capacity to meet this reliability requirement by allocating capacity credits to generation facilities and demand-side management providers.

Capacity credits are awarded in recognition of the generator's contribution to maintaining reliability in the system. This is more complex for intermittent than for conventional generators. Intermittent generators' capacity varies with the weather. The way capacity credits are allocated must take account of the extent to which intermittent generators can be relied upon to have capacity available when needed to support system reliability.

Every three years, the ERA reviews the method by which AEMO determines the maximum quantity of capacity credits that can be allocated to intermittent generators. In the Wholesale Electricity Market Rules this is called the relevant level method.

This is the ERA's first review of the relevant level method and must be completed before 1 April 2019.

This draft report outlines the ERA's findings and recommendations and is intended to assist interested parties to make submissions.

### **Invitation for submissions**

The ERA invites interested parties to make submissions on the draft report.

Submissions close 4:00 pm (WST) Monday, 18 February 2019.

Submissions should be lodged online using the form on our website [www.erawa.com.au/consultation](http://www.erawa.com.au/consultation).

### **Further information**

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