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Dear Energy Policy WA

CONSULTATION – COST ALLOCATION REVIEW

Synergy welcomes the opportunity to provide comment on Energy Policy WA's (**EPWA's**) *Cost Allocation Review Consultation Paper (Paper)* regarding proposed changes to the allocation of Market Fees and Essential System Services (**ESS**) costs to Market Participants in the Wholesale Electricity Market (**WEM**). It is noted that EPWA intends to publish an Information Paper and Amending WEM Rules for consultation, based on the proposals contained in the Paper.

Synergy's comments on the Paper are provided below.

Market Fees

The Paper proposes retaining the current method of allocating Market Fees based on metered generation or loads (Grid MWh) and that the primary objective of Market Fees is cost recovery. Synergy agrees with this approach as outlined in Proposal 1(a), noting the limited efficiency benefits of implementing a new WEM Hybrid Method for allocating Market Fees.

However, it may be worth considering the possibility that some Market Fees borne by Market Participants are due to non-Market Participant queries. Such queries may relate to potential entrants, market training expressions of interest, and Certified Reserve Capacity applications from potential new entrants. Although we note that the Australian Market Operator (**AEMO**) is not conducting this review, it may be relevant for AEMO to consider how these fees paid by Market Participants can be minimised.

Further, if at a later stage the WEM Hybrid Method was to be further reviewed and implemented, Synergy notes that the use of customer's IRCR MW may not be a fair measure for Market Fee allocation. As there are other drivers in the market, such as the Capacity Charge, that influence customer usage decisions in the IRCR intervals, an alternate measure should be used and further work undertaken to ensure it is fit for purpose.

Synergy agrees in principle with ignoring recharge energy in Proposal 1(b), preventing storage facilities from being allocated fees twice. However, further consideration is needed as to how this proposal will work for hybrid facilities, and if the treatment for hybrids will differ depending on the facility structure (metering, aggregation etc). Synergy notes that caution needs to be used to ensure that equitable treatment is applied to all Market Participants and Facility types.

Frequency Regulation

Proposal 2 seeks to address inefficiencies in the current method of recovering Frequency Regulation costs. It is understood that two implementations – for the WEM Deviation Method and the NEM Causer-Pays Method – and two implementation and trial periods for the respective methods are proposed. Presently, the expected costs of implementation for each of the methods are unable to be considered by Market Participants, and a cost-benefit analysis is yet to be completed for the WEM Deviation Method. We anticipate that AEMO will be providing additional clarity regarding expected implementation costs in the next stage of the review. On this basis, it is suggested that further investigation of both methods is undertaken before a decision is made favouring one over the other, and suggests that this is likely to be cost saving benefits of implementation only one method rather than implementing one to be later replaced with the other.

Whilst we are unable to consider the implementation costs of these methods, we provide the following comments for EPWA's consideration:

- The Paper suggests that adopting alternative approaches to allocating Frequency Regulation costs may provide incentives for retailers and aggregators to encourage installation of behind the meter (**BTM**) batteries and reduce future Regulation Raise requirements. This outcome may work for aggregators. However for normal loads, the BTM battery needs to be incentivised to operate in a way to minimise load variations. Effectively this will need to be done by regulated tariffs, and is a decision that will require consideration of the Minister's position on retail tariff price setting.
- The WEM Deviation Method involves calculating a linear ramp between dispatch targets matching 4-second SCADA data. It is understood that the method uses a hypothetical linear dispatch target, however we query whether using a linear dispatch target is appropriate for modelling, as ramping is not typically linear. Additionally, the proposed method calculates and aggregates coefficients of variation for plant and loads, and calculates the contribution factor for each 30-minute trading period. We query whether this is appropriate if there are different targets for each 5-minute dispatch interval.
- The Paper suggests that the WEM Deviation Method provides incentives for Market Participants to minimise deviations in generation and loads. It should be noted that loads may not be able to be incentivised because they are subject to regulated tariffs and the complexity involved with explaining this mechanism to retail customers.

Contingency Reserve Raise

Proposal 3 introduces a modified runway method to apply in instances where a Facility comprises multiple units, each with a separate network connection. This method intends to promote reduced risk associated with a Facility comprised of multiple units. Synergy supports the intent of this Proposal, and considers that AEMO should only apply this method for facilities where units are truly operated independently of each other. Further consideration may be required to ensure that facilities are given the right incentives to minimise power system risk, without incentivising the avoidance of costs via aggregating multiple units and also benefitting from treatment as single units.

Contingency Reserve Lower

Proposal 4 applies a modified runway method to allocate Contingency Reserve Lower costs, distinguishing between Network Contingency and Load Contingency setting the Contingency Reserve requirement in a trading interval.

Synergy supports this approach, and provides comments on the following:

- In allocating Contingency Reserve Lower costs to loads, the proposed methodology treats loads with capacity less than or equal to 120MW as a single 120MW load, effectively aggregating these small loads. This aggregation of small loads may create inconsistencies in the allocation of costs to loads less than 120MW and loads exceeding 120MW, particularly if small loads are devalued.
- Proposal 4 notes that 120MW is the current maximum load, based on the current largest contingency on the SWIS. Synergy supports adjusting the methodology to cater for future load contingencies exceeding 120MW, consistent with expectations that large-scale BESS will likely be introduced and relied on in future.¹
- Synergy understands the intention behind Proposal 4 for cost allocation aligned with a causer-pays principle, and notes that the Paper suggests introducing the modified method will incentivise developers to reduce the size of their largest load connected to the SWIS. This is expected to support power system security and reliability in the SWIS. However, balancing these cost-recovery and efficiency objectives may be challenging considering the expectation that the SWIS will rely on large-scale BESS to address long-term WEM objectives.

Synergy looks forward to further details regarding the implementation costs for the modified runway method, and engagement with EPWA during later stages of this Consultation.

¹ Economic Regulation Authority, 2022, Triennial review of the effectiveness of the Wholesale Electricity Market 2022 – Discussion Paper, ([online](#)).

System Restart Services

Proposal 5 suggests retaining the current cost allocation method for System Restart Services (**SRS**), being cost recovery from loads. Synergy is not opposed to this Proposal, however seeks clarification as to:

- Whether these costs will be recovered based on a simple share of MWh;
- The treatment of BESS: Will BESS be allocated a share of SRS costs? These facilities should be treated consistently in the allocation of costs.

Non-Co-optimised Essential System Services (NCESS)

Proposal 6 introduces cost recovery methods for NCESS, distinguishing between NCESS procured by AEMO and NCESS procured by Western Power.

The Paper notes the present difficulty with attributing NCESS costs to individual loads and/or generators, and proposes that these costs be allocated to beneficiaries (Market Customers). Further consideration as to the causer of NCESS requirements may be warranted before this cost recovery method is implemented. For example, if a Market Participant ignored locational investment signals before building a generator and this resulted in NCESS procurement, all NCESS costs should instead be allocated to that Participant.

Conclusion

Synergy appreciates the opportunity to provide comments on the Cost Allocation Review Consultation Paper and looks forward to continuing working with EPWA and the Cost working group in this review.

Yours sincerely



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