



Scope of Work for the Review of Supplementary Reserve Capacity Provisions

1. Introduction

The Coordinator of Energy (**Coordinator**) plans to review the supplementary reserve capacity (**SRC**) provisions of section 4.24 of the Wholesale Electricity Market (**WEM**) Rules.

Clause 4.24.19 of the WEM Rules requires that after each call for tenders for supplementary capacity or otherwise acquiring Eligible Services, the Coordinator must:

- review the SRC provisions with regard to the Wholesale Market Objectives; and
- undertake a public consultation process in respect of the outcome of the review.

1.1 Background

1.1.1 2022 Call for Supplementary Reserve Capacity

On 23 September 2022, AEMO commenced the SRC process under section 4.24 of the WEM Rules and published an invitation for tenders from “Eligible Services” capable of generation or load reduction¹.

In its invitation AEMO provided the following information:

- AEMO is looking to secure 174 MW of Eligible Services for the period between 1 December 2022 and 1 April 2023.
- This shortfall is due to the early retirement of the Kwinana Cogeneration Plant, an extended Forced Outage of Pinjar unit 10 and increases in AEMO’s peak demand forecasts, ongoing fuel supply limitations and project delays.
- AEMO is progressing the SRC process through an Invitation to Tender within the following timeline:
 - 23 September 2022 - Invitation to Tender opening date;
 - 14 October 2022 - Deadline for questions from Recipients;
 - 19 October 2022 - Deadline for AEMO to answer Recipients’ questions;
 - 21 October 2022 - Invitation to Tender closing date;
 - Week commencing 28 November 2022 - Successful Recipients notified of award of Supplementary Capacity Contract; and
 - 1 December 2022 - Anticipated Supplementary Contract start date.

¹ Eligible Services include:

- load reduction excluding Registered Facilities, and Demand Side Programme customers who have not satisfied its Reserve Capacity Obligation for the current cycle;
- generation by facilities not currently registered; and
- generation by Registered Facilities given they don’t hold Capacity Credits for the electricity to be provided as SRC and they hold Capacity Credits in a subsequent cycle.

1.2 Related Reviews

The Coordinator is currently undertaking a review of the RCM that could affect this review. The Coordinator will ensure any findings from the RCM Review will be accounted for in the SRC Review and vice versa.

2. Project Scope

The objective of this review is to, on the basis of the experience and understanding gained through the current SRS process:

- identify any shortcomings of the SRC provisions;
- identify required improvements to the SRC provisions.

2.1 Guiding Principles

The guiding principles for the review of the SRC provisions are that any proposed revisions to those provisions should:

- (1) Be consistent with the Market Objectives.
- (2) Enable AEMO to effectively procure required services to ensure system reliability.
- (3) Not incentivise strategic withholding of capacity from the Reserve Capacity Mechanism.
- (4) Lead to a cost-effective, timely, transparent and flexible process.
- (5) Allocate risks to those who can manage them best.

2.2 Project Stages

The intended contract period for the 2022 SRC is 1 December 2022 to 31 March 2023.

The next Capacity Year for which AEMO may undertake the SRC process is the 2023/24 Capacity Year.

Under clause 4.24.1 of the WEM Rules, AEMO may commence the SRC process no earlier than six months before the start of the relevant Capacity Year. Therefore, the earliest time another SRC process could commence is 1 April 2023 which is immediately after the end of the 2022 SRC contract period.

To allow for any changes from the SRC Review to be implemented in time for a SRC process in 2023, should one be required, the Coordinator will undertake the SRC Review in 2 stages.

Stage 1: Review of the SRC provisions related to the procurement of the SRC (the process from 1 September to 1 December 2022)

Stage 2: Review of the operation of the procured SRC services (from 1 December 2022 to 1 April 2023)

Each stage includes:

- assessment of the relevant clauses of the WEM Rules;
- assessment of the actual outcome of the relevant process steps;
- interviews with relevant stakeholders including AEMO;
- consultation paper including any draft Amending Rules; and
- Final Amending Rules, if applicable.

Stage 1: Assessment of the procurement process from identification of the shortfall to contract commencement which would aim to answer the following questions (at minimum):

- Procurement Process:
 - What went well and what did not?
 - Was the invitation to tender document sufficiently clear?
 - Was there sufficient time for AEMO and providers of Eligible Services to effectively participate in and complete the procurement process?
 - Were there any barriers or limitations in the process that may have prevented a better (e.g. price or service specification) outcome?
- Review of the offers received and contracts procured:
 - Is the definition of Eligible Services appropriate?
 - Were any offers received that were not for Eligible Services?
 - Were any capacity providers excluded that should not have been excluded?
 - Is the information described in clause 4.24.8 sufficient to effectively assess offers and contract costs?
 - Are the decision criteria in clause 4.24.8 of the WEM Rules appropriate?
 - Was any actual withholding, or incentive for withholding, of capacity in the RCM identified through the process?
 - Did the offers received meet the service requirements?
 - Were any of the offers rejected and on what basis?
 - Were the offered prices competitive?
 - Was the needed amount of SRC procured and if not, why not?

Stage 2: Assessment of the performance and overall value of the contracted services from contract start to contract end including the following questions:

- How often and how much of the contracted services were used and in what circumstances?
- Were some services used in preference to others?
- Were any issues identified with the actual delivery of the contracted services and what were these issues?
- Did the overall cost of the services actually result in the lowest cost outcome for consumers?
- Could any gaming opportunities be identified?
- Is the current funding regime appropriate, under which the SRC is funded by consumers apart from any amount drawn by AEMO under a Reserve Capacity Security?

Stakeholder Engagement

The SRC Review will include stakeholder consultation through one-to-one meetings with interested parties and parties which were involved in any part of the SRC process. AEMO will be asked to provide all available data relevant to the above questions as well as a qualitative and quantitative assessment relevant to both Stages of the Review.

Energy Policy WA will develop consultation papers, including proposals for any necessary changes, and invite feedback from all stakeholders.

3. Project Schedule

The following is a preliminary high-level project schedule for this.

Tasks/Milestones	Timing
Inform the MAC on the Scope of Work for the SRC Review.	December 2022
Engage a consultant(s) to assist with the review.	January 2023
Stage 1	
Assessment of the process from identifying the shortfall to contracting supplementary capacity	February 2023
Stakeholder interviews	
Consultation paper and TDOWG meeting on any draft Amending Rules	March 2023
Submissions on the consultation paper and any draft Amending Rules	March 2023
Amending Rules for any urgent changes to Minister, if required	April 2023
Step 2	
Assessment of the services from contracting of supplementary capacity to the end of the contracts	April/May 2023
Stakeholder interviews	
Consultation paper including any draft Amending Rules	June 2023
Submissions on the consultation paper and any draft Amending Rules	July 2023
Final Amending Rules, if required	August 2023