

2 June 2023

Ms Dora Guzeleva
Director, Wholesale Markets
Energy Policy WA
Email: energymarkets@dmirs.wa.gov.au

Dear Ms Guzeleva,

Reserve Capacity Mechanism Stage 2 Consultation Paper

The Australian Energy Market Operator (AEMO) supports the ongoing Reserve Capacity Mechanism (RCM) Review in facilitating the transition to the future power system. Accordingly, AEMO has taken the opportunity to provide this submission in response to the RCM Stage 2 Review Consultation Paper (the Consultation Paper), published on 3 May 2023.

The Consultation Paper sets out the Stage 2 review findings and makes conceptual design proposals for the effective operationalisation of the capacity products required in future years; two new design proposals on elements of Stage 1 are also included. AEMO is supportive of the majority of the design proposals.

In particular, AEMO supports the proposed changes to the calculation of the Benchmark Reserve Capacity Price (BRCP) as the current single reference technology approach will not support the inclusion of flexible capacity products. In addition, AEMO acknowledges that the proposed amendment to the second limb of the Planning Criterion recognises the changing risks to power system operation and the reduced tolerance of the community to supply shortfall. AEMO looks forward to supporting Energy Policy WA on the analysis required to facilitate any changes to the second limb.

Included within Attachment 1 are some high-level comments on proposals that will have broader implications for power system operation and market operation. In summary, AEMO supports the design proposals concerning a dynamic baseline (Demand Side Program (DSP) performance), flexible capacity tests and the distribution of capacity refunds, and has suggested some design improvements to better support power system reliability.

The proposals associated with more frequent Individual Reserve Capacity Requirement (IRCR) calculations, changes to capacity refund arrangements (single pool and refund multiplier), and a requirement for flexible capacity to lodge outages appear beneficial and reasonable, though may have implementation issues that should be further considered in advance of the development of rule amendments.

Aspects of design associated with the treatment of DSP Associated Loads, such as the assignment of Certified Reserve Capacity (CRC) and the proposed inclusion of co-located generation and storage, need to

be further refined before AEMO can fully assess the changes. AEMO welcomes further discussions on these aspects of the RCM review.

AEMO looks forward to continuing work with Energy Policy WA and the industry on the detailed design elements for the RCM amendments and on implementing the required changes promptly and efficiently. However, as noted in AEMO's response to the Stage 1 Consultation Paper, the implementation timings for the changes may be insufficient to incentivise the timely entry of new capabilities and mitigation of emerging shortfalls. AEMO therefore remains focussed on the continued assessment of fleet sufficiency in the near term and options under Wholesale Electricity Market Rules to maintain power system security and reliability.

If you would like to discuss any matters raised in this submission, please contact Mena Gilchrist at mena.gilchrist@aemo.com.au.

Yours sincerely,



Kate Ryan

Executive General Manager – Western Australia & Strategy

Attachment 1: Comments on RCM Review Stage 2 proposals

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Conceptual design proposal/s	AEMO comment
<i>The proposal is generally supported, with suggestions for improvement</i>	
Proposal J: Adopt a dynamic baseline to measure DSP dispatch performance against. Continue to assess the detailed dynamic baseline methodology. Consider reducing the number of hours that DSPs can be dispatched.	Consider enabling a DSP to nominate the number of hours. A dynamic baseline would need to be flexible enough to account for a participant responding to IRCR signals during the Summer and either responding or not responding on the same day as being dispatched.
Proposal K: Require facilities holding flexible Capacity Credits to be tested for start/stop times and ramp capability. Allow Facilities to pass flexible capacity tests by observation. Require AEMO to schedule tests of flexible capacity characteristics to coincide with tests for peak capacity.	Consider mandatory participation in Fast Start Inflexibility Profiles.
Proposal S: Distribute collected capacity refunds (RC and SRC) to consuming participants rather than other capacity providers.	Consider including a required action if a provider fails to provide for a full year; for example, include unavailability / non-provision as part of NCESS trigger.
<i>The proposal is generally supported, but further detail is required to understand the operational impacts</i>	
Proposal D: Calculate IRCR on a daily basis. Set representative load for new meters based on the maximum of the median demand in the four peak intervals of any prior month.	AEMO is supportive of more frequent calculations and suggests consideration is given to calculating Reserve Capacity payments daily, as the current monthly approach arbitrarily places a higher value on capacity credits in shorter months.
Proposal N: Require flexible capacity holders to lodge outages relating to the capability to provide flexible capacity.	Further detail is required to understand whether there will be a separate refund regime and, therefore, the operational impact on AEMO.
Proposal P: Capacity refunds for both peak capacity and flexible capacity will be paid from a single pool of capacity payments.	Further detail is required to understand the operational implications for AEMO.
Proposal Q: Calculate a dynamic refund multiplier for flexible capacity based on a comparison of the actual ramp requirement	Further detail is required to understand the operational implications for AEMO.

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Conceptual design proposal/s	AEMO comment
<p>in the interval and the ramp rate used to set the flexible capacity RCR. Apply the greater of the peak and flexible multipliers to refunds for facilities supplying both capacity types. Require AEMO to publish the projected load ramp rate alongside the load forecast.</p>	
<p>Proposal R: Amend the Maximum Facility Refund for DSPs to include the DSM Reserve Capacity Security.</p>	<p>Further detail required to understand if DSM Reserve Capacity Security will be called upon or if it is to be an input into the calculation. Effort taken in the detailed design phase will be necessary; otherwise significant complexity will likely arise during implementation.</p>
<p><i>Clarification on the detailed design is required to enable AEMO's assessment of the proposal</i></p>	
<p>Proposal G: Where a DSP has:</p> <ul style="list-style-type: none"> • the same Associated Loads it had in the previous year, assign CRC based on IRCR of the Associated Loads; and • different Associated Loads from the previous year, assign CRC based on a value nominated by the Market Participant. 	<p>The integration of multiple CRC options for DSPs is likely to add complexity, such that a single process would be preferable if the complexity of the detailed design and the cost to implement and operationalise outweighs the benefit. AEMO looks forward to continuing discussion on this proposal.</p>
<p>Proposal I: Allow sites with co-located load and generation or storage to be Associated Loads of a DSP. There is no reason to exclude hybrid facilities from participation as DSPs as long as the rules ensure that a Capability Class 2 facility with co-located load and storage cannot self-discharge its storage so as to reduce its IRCR exposure while also receiving capacity credits for that capability.</p> <p>*Note Proposal 13 (Stage 1) included the following –</p> <ul style="list-style-type: none"> • CRC allocation methodologies will be amended to consider hybrid facilities as a single entity. 	<p>AEMO seeks confirmation that there will not be an obligation to register generation and storage under this proposal, and that the proposal:</p> <ul style="list-style-type: none"> • is for Non-Scheduled Facilities only; • allows for sites containing load/generation to participate as a DSP. <p>AEMO is also seeking to confirm if 'hybrid' is a reference to hybrid generators or to hybrid capability classes, that is, to ensure the proposal is not seeking to remove the concept of Separately Certified Components. Separately Certified Components are used throughout AEMO's processes and systems, including RCM, Registration, and Outage Management (as some examples). Therefore, removing this concept from the WEM Rules will require significant implementation effort across most aspects of AEMO's operations.</p>