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Energy Policy WA

Submitted via: energymarkets@dmirs.wa.gov.au

Supplementary Reserve Capacity Review – Phase 2 Consultation Paper

Alinta Energy appreciates the opportunity to provide feedback on the proposals to improve the Supplementary Reserve Capacity Process.

We provide the following recommendations for EPWA's consideration:

Proposal 2

EPWA proposes to amend the WEM Rules to require AEMO to test every service subject to a Supplementary Capacity Contract as soon as practicable after entering into that contract. In the TDOWG, EPWA also noted that self-testing may be considered, and that testing will not be compensated.

We recognise that the intent of this proposal is to avoid participants receiving contracts for disingenuous applications.

However, we consider that it may deter many good-faith applicants from offering at all because testing is likely to impose substantial additional costs on many providers, including demand-side providers that must cease operations.

While we understand that it would be ideal for AEMO to have maximum certainty of capacity being contracted, we note that the SRC mechanism is called in emergency shortfall situations and its ability to secure new capacity is extremely limited by its short timeframe and limited payments which are typically far from sufficient to support new capacity and many technology types participating.

Given these limitations and the consequences of not securing enough SRC for reliability, the need for certainty of SRC capability must be balanced with the need to maximise the types of capacity that can and would be willing participate.

To better achieve this balance, avoid making the incentive to provide SRC becoming even more marginal, we recommend that:

- 1) The rules provide for applicants to be compensated for any activation of their capacity for testing; and
- 2) Whether testing is required remains a matter to be negotiated and subject to AEMO's discretion in contracts.

We expect that in a scenario where there are not enough applicants to meet the SRC

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requirement, AEMO would prefer to negotiate and contract a supplier that is not willing to test without compensation, rather than having that participant not apply at all, having been deterred by the cost and obligations relative to the marginal payments.

We consider that AEMO could minimise the risk of disingenuous applications being contracted by prioritising which applications they progress based on their certainty. For example, applications could be ranked in the following order:

1. Participants willing to test without compensation.
2. Participants not willing to test without compensation.
3. Participants who have held capacity credits in the 2 past years.
4. Any other capacity

Other comments

The paper notes:

"The Balancing Price during the SRC activation was markedly lower than the average Balancing Price over the same intervals on the 10 days with the highest operational demand. This is likely to indicate that SRC activation may influence market outcomes. This may produce an inefficient market outcome in the event SRC that is ultimately not needed is activated because of its long notice period."

We understand that the SRC price was lower due to the need for some SRC providers to submit offers that ensure they are committed and operating at a level where they can provide the SRC during the period. The activation payment is unlikely to cover the cost of this and therefore remains necessary regardless of whether the SRC capacity is ultimately needed, once activated.

Thank you for your consideration of our submission. If you would like to discuss further, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely



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