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6 June 2023

RESPONSE TO RESERVE CAPACITY MECHANISM REVIEW CONSULTATION PAPER – STAGE 2

Bluewaters Power (Bluewaters) appreciates the opportunity to provide feedback on the RCM Stage 2 Consultation Paper (Consultation Paper) and supports many of the reforms proposed, believing they will improve the effectiveness of the RCM.

However, Bluewaters does have concerns regarding Proposal S that suggests collected capacity refunds should be distributed to participants, responsible for loads, rather than other capacity providers (the Proposal).

These concerns relate to the level of investigation that has been undertaken in developing the Proposal, the rationale for the Proposal and potential economic outcomes of implementing the Proposal.

Proposal Development

The Proposal does not appear to have undergone the same level of investigation, scrutiny and industry engagement as other proposals presented in the consultation paper and has only been briefly discussed at RCMRWG and MAC sessions. Comparatively, other proposals in the Consultation Paper have been the outcome of rigorous discussion at RCMRWG and MAC and are supported by in-depth analysis and investigation.

Furthermore, as noted in the Consultation Paper, the issue of capacity refund distribution has previously been reviewed and did change from consumers to generators on 1 October 2017. The background work supporting this previous change was more detailed and robust, than is currently being contemplated, as evidenced by notes in the *Position Paper on Reforms to the Reserve Capacity Mechanism*, published by the PUO on 3 December 2015 (2015 Position Paper), which is referenced in the Consultation Paper.

Proposal Rationale

The Proposal rationale that consumers will pay more, through their capacity credit obligations and SRC/NCESS payments, for the same level of reliability, ignores the increased value of generation capacity that is available during times of reduced capacity in the WEM. This point was also raised in the 2015 Position Paper, which supported the distribution of capacity refunds to generators.

Furthermore, the Proposal rationale implies that reduced generator availability is the only driver of SRC and NCESS procurement which is not the case. While reduced generator availability may

contribute to the need for SRC/NCESS (and was the case during the recent summer of 22/23), consumer demand and/or demand profile also influences SRC/NCESS requirements.

Economic Outcomes

Bluewaters considers that the current dynamic capacity refund mechanism and refund distribution regime work in parallel to “*strengthen incentives for plant availability and competition in the energy market*”, as noted in the 2015 Position Paper. Proceeding with the Proposal therefore removes an incentive associated with plant availability and potentially reduces competition in the energy market.

Conclusion

Bluewaters supports the majority of proposals presented in the RCM Stage 2 Consultation Paper, however does not agree with the proposed distribution of collected capacity refunds as outlined in Proposal S due to the lack of proposal development, gaps in proposal rationale and the potential for uneconomic outcomes if it is implemented.

Should further discussion be desired for any points raised in this submission, please don't hesitate to contact me at daniel.kurz@bluewatersps.com.au or on 0435 208 542.

Yours Sincerely



Daniel Kurz

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