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Sent via email: [energymarkets@dmirs.wa.gov.au](mailto:energymarkets@dmirs.wa.gov.au)

Dear Energy Policy WA:

**Re: Reserve Capacity Mechanism Review Consultation Paper – Stage 2**

NewGen Power Kwinana (NewGen) 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, NewGen 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

The Proposal seeks an equitable outcome by distributing collected capacity refunds to those that cover overall cost of the RCM, however NewGen believes the bulk of this cost is paid by end user consumers and not necessarily their retailers, the Market Customers', that will receive the distribution of capacity refunds.

While NewGen expects most agreements between an end user and retailer will allow the pass through of costs, such as those associated with SRC or NCESS, from the retailer to end user, it questions whether these agreements cater for the pass through of any benefit received by a retailer to the consumer. Without clarity on who is ultimately funding SRC/NCESS procurement and receiving distributed capacity refunds under the Proposal, it is difficult to assess if it will be more equitable than current arrangements, which do economically compensate generators for the capacity they provide during times it is required.

Additionally, NewGen 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**

NewGen 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 [adam.stephen@sscpower.com.au](mailto:adam.stephen@sscpower.com.au) or on 0410 934 591.

Yours Sincerely



Adam Stephen

**Senior Manager Trading and Regulatory**