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Energy Policy WA
Level 1, 66 St Georges Terrace
PERTH WA 6000

energymarkets@dmirs.wa.gov.au

BRCP REFERENCE TECHNOLOGY REVIEW - CONSULTATION PAPER

Synergy welcomes the opportunity to provide comment on Energy Policy WA's (**EPWA's**) *BRCP Reference Technology Review - Consultation Paper (Paper)*. The Paper outlines EPWA's recommendations for the reference technologies to be used for the Benchmark Reserve Capacity Price (**BRCP**) for Peak and Flexible Capacity.

At a high-level Synergy, in general, agrees with EPWA's approach and proposed selection of the Reference Technology to be used for the BRCP determination for Peak and Flexible Capacity. Synergy acknowledges that the choice of the reference technology is not an easy task and the balancing required to ensure the chosen technology allows for appropriate investments in the Wholesale Electricity Market (**WEM**), while also ensuring consumers are not exposed to unnecessary costs. Synergy provides the below feedback for EPWA's consideration.

Service Requirements

The paper outlines the high-level requirements the reference technology must be able to meet for both the Peak and Flexible Capacity products. In addition to these requirements, Synergy considers that the choice of technology should also be mindful of system security and reliability requirements and the additional value that higher availability provides to the WEM in terms of system security and reliability. Under the WEM Rules, an Electricity Storage Resource (**ESR**), the proposed technology type for the reference technology, has a 4-hour availability requirement, whereas other technology types have a 14-hour availability obligation. Synergy considers that although a 4-hour ESR can meet the obligations for Peak Capacity, other technology types may provide additional value to the WEM due to the longer availability obligations, and this addition value to customers should be considered in the choice of the reference technology.

Further, the *Exposure Draft – Draft Wholesale Electricity Market (WEM) Amending Rules (Draft RCM Rules)*, allow for the availability requirement of ESRs to increase overtime to counter for any Availability Duration Gap identified by AEMO. Synergy considers the choice of Reference Technology, or alternatively, the methodology for determining the BRCP, needs to be easily amended to ensure continued alignment with the availability obligations in the WEM rules. Synergy is of the understanding that under the WEM Rules and Draft RCM Rules, the BRCP is determined by 15 January in Year 1 of the Capacity Cycle, and AEMO's assessment of the Availability Duration Gap and any amendments to the ESR Duration Requirement are published in the Electricity Statement of Opportunities (**ESOO**) in mid June of Year 1 of the Capacity Cycle. The current timelines create a situation where there is the potential for the ESR Duration Requirement to exceed the availability requirements of the BRCP Reference Technology which may distort investment signals. Synergy considers that WEM Rule amendments are required to remove the potential mis-match between the availability requirements of the BRCP Reference technology and the ESR Duration Requirements.

Technology Cost Assessment

The Paper acknowledges that the current BRCP assumption of a 50-year economic life may no longer be appropriate as the electricity industry transitions towards net zero emissions and applies a 25-year economic life for all technologies. Synergy considers that the assumed economic life of 25 years is optimistic for an ESR and suggests the economic life used in the BRCP methodology should align with Market Participants expectations of the economic life of ESRs.

In addition, the Paper also notes that an ESR providing Flexible Capacity is expected to have a shorter economic life and require cell replacements earlier than an ESR providing only Peak Capacity. However, the Paper suggests the cell replacement costs for batteries are considered as a variable cost component, meaning the assumed fixed costs for an ESR providing Peak and Flexible Capacity would be the same as an ESR providing only Peak Capacity. Synergy considers that the costs associated with cell replacement should be considered as fixed costs for the BRCP determination and that by considering these costs as variable costs reduces the investment signal. A differential BRCP for the two capacity products acknowledges the different requirements and provides the incentive for investment in Flexible Capacity and also acknowledges the different services that are being provided to customers.

To address Synergy's concerns, Synergy's preferred approach is for the reduced economic life and increase in costs to be included in the BRCP. In addition, Synergy recommends that at a minimum the Economic Regulatory Authority's (ERA's) Offer Construction Guideline provide detailed examples and guidance on how offers should be constructed for an ESR that provides only the Peak Capacity service, and a comparison to those for an ESR that provides both Peak and Flexible Capacity. Further, Synergy considers that the \$/MW costs assumptions used for the ESRs within the Paper may not align with the current WEM experience and suggests that these need to be refined to better represent actual costs that Market Participants are expected to incur.

Review of the Reference Technology

The Paper acknowledges the pace of the energy transition and that the Reference Technology needs to be continually reviewed to ensure it remains appropriate and proposes 3 yearly reviews. Synergy is supportive of an on-going review requirement for the reference technology, however an alternative process may be better suited. Synergy considers that it is critical for the reference technology to align with the ESR Duration Requirement and the emissions intensity threshold. Synergy considers that if either of these items are amended, the BRCP and its underlying assumptions (such as the reference technology) should be able to be readily changed to ensure the BRCP has continued alignment with the obligations of the WEM. In order to quickly remedy for any misalignment an alternative review process may be needed rather than the proposed three year review process.

Net CONE vs Gross CONE

The Paper investigates the application of both a Gross CONE and a Net CONE approach for the BRCP determination and acknowledges the increasing complexities and sensitivities of a Net CONE approach. Synergy agrees with EPWA's assessment on the approaches and supports maintaining a Gross CONE approach for BRCP determination.

Conclusion

Synergy appreciates the opportunity to provide comment on EPWA BRCP Reference Technology Review and looks forward to continuing to work with EPWA.

Yours sincerely



**RHIANNON BEDOLA
MANAGER ELECTRICITY MARKETS**