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Ms Dora Guzeleva
Director Wholesale Markets
Energy Policy WA
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Dear Ms Guzeleva,

Rule Change Notice: Supplementary Capacity Amendments (RC_2025_01)

The Australian Energy Market Operator (AEMO) appreciates the opportunity to provide a submission on the Rule Change Proposal submitted by Bluewaters Power (the Proponent) under section 2.5 of the Electricity System and Market Rules (ESM Rules).

AEMO acknowledges the Proponent's rationale that a Market Participant that has applied for certification for a Registered Facility but was not awarded Capacity Credits may wish to participate in the supplementary capacity process in that same Capacity Year, with the aim of increasing competition and assisting AEMO in addressing capacity shortfalls.

AEMO has reviewed the Rule Change Proposal and considered its application across both the Reserve Capacity Mechanism (RCM) and Supplementary Capacity (SC) processes, and has identified some potential unintended consequences that the Coordinator of Energy may wish to consider in determining whether the proposed changes are consistent with the State Electricity Objective. These are outlined below.

Potential unintended outcomes of the proposal

Impact on the RCM

Energy Policy WA (EPWA) has previously confirmed that the policy intent for the waiting period under clause 4.24.3(c) is to disincentivise the deliberate withholding of capacity from the RCM, which is the primary mechanism by which sufficient Peak Capacity is procured to meet forecast peak demand.¹ AEMO also notes that SC is intended as a backstop measure to assist AEMO in managing power system security and reliability where insufficient capacity is forecast to meet peak demand during the upcoming Hot Season. If SC were positioned to compete with the RCM in procuring Peak Capacity, it would likely be detrimental to overall costs and market outcomes.

As currently drafted, the amendments to clause 4.24.3(c)(i) could potentially impact the effectiveness of the RCM and increase costs to consumers, without a commensurate increase to system reliability during peak periods. For example, the proposed drafting does not preclude scenarios in which:

- a Market Participant applies for Certified Reserve Capacity (CRC) to satisfy the amended eligibility criteria under clause 4.24.3(c)(i) without intending to receive Capacity Credits. For example, a CRC application may

¹ Coordinator's 2023 Review of Supplementary Reserve Capacity Provisions, *Stage 2 Information Paper*, p8. Available at https://www.wa.gov.au/system/files/2023-07/src_review-stage2_information_paper.pdf.

be submitted with insufficient information or withdrawn. Having met the revised eligibility criteria, the Market Participant would be able to offer this capacity into a SC procurement process; or

- a Market Participant receives Capacity Credits for Year 3 of the Reserve Capacity Cycle and subsequently makes a voluntary reduction in its Capacity Credit allocation under clause 4.25.4A (for example, once a prospective SC shortfall is identified). The Market Participant would then be able to offer the capacity associated with the voluntary reduction into the SC process.

Both scenarios could constitute the deliberate withholding of capacity from the RCM and could lead to increased costs to consumers, due to the higher activation costs of SC. If the proposed amendments were to proceed, AEMO would recommend introducing additional provisions to restrict eligibility and minimise the likelihood of these adverse outcomes.

Effective operation of the SC process

As part of the reserve capacity certification process, AEMO will determine the quantity of capacity a Facility can provide during peak periods. While AEMO may reduce CRC or Capacity Credits for a range of reasons, this can be due to an assessment by AEMO that the Facility is not able to reliably perform during peak periods. AEMO considers that under the proposed drafting, a Market Participant could offer SC from a Facility that has not received Capacity Credits or had their Capacity Credits reduced for this reason. Where these types of scenarios are applicable, it is likely that the Facility would also be unsuitable to provide SC. This is another potential outcome that would need consideration if the rule change were to be progressed.

Other issues relevant to the Rule Change Proposal

Notification Periods

The ESM Rules currently align notification times for Facilities providing an SC Eligible Service with equivalent provisions applicable to a similar type of Facility providing a similar service under the ESM Rules (clause 4.24.14A). An SC service that has excessive notification requirements and run up times would create a range of operational challenges, particularly where notification would be required in advance of AEMO's determination of Forecast LOR conditions. This is because operating conditions in the lead up to SC activation may be highly dynamic with respect to temperature and wind conditions, in-service capacity and outages, network conditions, and other factors. Forecast Lack of Reserve (LOR) Conditions are typically determined on the morning of an event day, with SC services formally notified to prepare for activation if AEMO forecasts LOR2 or LOR3 conditions for the evening peak.

The longer the notification requirement, the greater the likelihood that an SC service would either be unavailable or not required (if changes in operating conditions have alleviated forecast LOR conditions). AEMO therefore suggests specifying in the ESM Rules or relevant WEM Procedure an upper bound for notification times for activation of an Eligible Service offered on an 'availability and activation' basis.

Clarifying drafting with respect to a 'Capacity Year'

In its submission on the Tranche 9 Exposure Draft, AEMO recommended that the drafting in clause 4.24.3(c) regarding '*current Capacity Year or immediately preceding Capacity Year*' be updated to clearly indicate that the '*current Capacity Year*' refers to the Capacity Year for which the SC is being sought, not the Capacity Year in which the SC process is triggered and call for tenders published. As this clause is the subject of the proposal, AEMO notes that taking the opportunity to clarify the drafting would provide greater certainty for the market.

Consistency with Flexible Capacity amendments commencing on 1 January 2026

On 1 January 2026, amendments to the ESM Rules will be commenced to provide for the provision of supplementary Flexible Capacity. As the Rule Change Proposal only relates to supplementary Peak Capacity, if it is progressed AEMO notes that consequential amendments would need to be made to section 4.24 to ensure consistency.

If you would like to discuss any of the matters raised in this submission, please contact Sarah Graham, Manager WA Regulatory Affairs at sarah.graham@aemo.com.au.

Yours sincerely,

Signed by:

Kirsten Rose

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Kirsten Rose

Executive General Manager WA