



# WEM Procedure: Benchmark Reserve Capacity Price, Review Working Group

## *Terms of Reference*

November 2023

## 1. Background

### *The need for a Working Group*

The Wholesale Electricity Market (WEM) Rules require the Economic Regulation Authority (ERA) to review the WEM Procedure for determining the BRCP at least once every five years.<sup>1</sup>

The Market Advisory Committee (MAC) has established the BRCP Review Working Group (Working Group) in accordance with clause 2.3.17 of the WEM Rules and clause 5.1(b) and section 9 of the MAC Constitution to inform the ERA's review of the BRCP determination method and engage in the procedure change process.

### *The BRCP procedure review*

The BRCP is an input into the calculation of the reserve capacity price, which is the price paid to generators for each megawatt (MW) of reserve capacity that they make available in that year. The BRCP is an integral part of the reserve capacity mechanism (RCM), which aims to ensure sufficient capacity in the SWIS so that electricity is available when required. It provides price signals for capacity providers, like generators, to enter the market. The revenue from reserve capacity payments adds to other revenues from generating electricity and providing essential system services to provide an overall return for investors.

The ERA annually determines the BRCP for a capacity year two years in advance using the method and procedure outlined in the WEM Rules and WEM Procedure.<sup>2,3</sup> The current method requires the BRCP to be an estimate of the annualised cost to build and connect a hypothetical 160 MW liquid fuelled open cycle gas turbine generator to provide reserve capacity to the SWIS. The WEM Procedure sets out the size, type of generator and technical method and parameters to determine the BRCP.

As part of the ongoing WEM reforms, Energy Policy WA (EPWA) is reviewing the RCM, which includes review of the reference technology the BRCP is based on.<sup>4</sup> The outcomes of EPWA's review of the BRCP reference technology is a key dependency and input into the ERA's review of the BRCP procedure. This Terms of Reference should be read in conjunction with papers

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<sup>1</sup> Wholesale Electricity Market Rules (WA), 3 November 2023, cl. 4.16.9, ([online](#)).

<sup>2</sup> Wholesale Electricity Market Rules (WA), 3 November 2023, cl. 4.16, ([online](#)).

<sup>3</sup> ERA, 2020, *Market Procedure: Benchmark Reserve Capacity Price*, version 7, ([online](#)).

<sup>4</sup> All papers on EPWA's review of the reserve capacity mechanism are available on its website ([online](#)).

from EPWA's review of the BRCP reference technology and the exposure draft of the Amending Rules.<sup>5</sup>

EPWA has proposed the following elements of the RCM in its review that will affect the ERA's BRCP procedure review:<sup>6</sup>

- The introduction of Flexible Capacity Products requiring the BRCP to be determined for two products: the Peak Capacity Product and Flexible Capacity Product.
- The BRCP reference technology to be a 200 MW/800 MWh lithium battery energy storage system (BESS) for both Peak Capacity Product and Flexible Capacity Product.

## 2. Purpose and scope of work

The Working Group has been established to assist the ERA with its review of the BRCP procedure which includes assessing the:

- a. appropriateness of the method used to determine the WACC, including values of the underlying variables and how often those variables are to be reviewed;
- b. appropriate fixed O&M costs and capital costs that would apply to the Peak Benchmark Capacity Provider and Flexible Benchmark Capacity Provider, including components of these costs, how to determine forecasts to escalate costs into the future, and the method to estimate these cost items;
- c. method to annualise fixed operation and maintenance (O&M) costs and the capital costs of the Flexible and Peak Benchmark Capacity Providers, including the appropriate length of time for the costs to be annualised over;
- d. assessment of the effect of the Network Access Quantities (NAQ) framework on capacity credits for the Benchmark Capacity Provider;
- e. purpose, readability and interpretation of the Procedure.

## 3. Membership

1. The Working Group has a Chair appointed by the ERA. The ERA may replace the Chair at any time and must advise the MAC Chair as soon as practicable.
2. The Working Group has no permanent members apart from its Chair. The Minister for Energy, the ERA, the Coordinator of Energy, the MAC Chair and each Rule Participant may:
  - a. nominate a representative to attend a Working Group meeting by advising the Working Group secretariat in advance of that meeting, which may be a standing nomination that applies until the Working Group secretariat is advised to the contrary;

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<sup>5</sup> All papers on EPWA's review of the BRCP reference technology are available on its website ([online](#)). The latest exposure draft of the Amending Rules is on EPWA's website ([online](#)).

<sup>6</sup> EPWA, 2023, *BRCP Reference Technology Review – Consultation Paper*, ([online](#)). EPWA anticipates to complete its review and have amending WEM Rules take effect in January 2024.

- b. with the permission of the Working Group Chair, send additional representatives to a Working Group meeting; and
  - c. register to receive information relating to the activities of the Working Group, including notification of upcoming meetings, meeting papers and documents distributed out-of-session, by providing an email address for such correspondence to the Working Group Chair.
3. Other stakeholders may attend Working Group meetings or register to receive information relating to the activities of the Working Group if the Working Group Chair approves.

## **4. Responsibility of meeting attendees**

A person attending a Working Group meeting is expected to:

- a. have suitable knowledge and experience to engage in and contribute to discussions relevant to the specific meeting;
- b. prepare for the meeting, including by reading any meeting papers distributed before the meeting;
- c. participate as a general industry representative rather than solely representing their company's interests; and
- d. carry out actions if and as agreed.

## **5. Administration**

1. The ERA will provide secretariat support for the Working Group.
2. The ERA will prepare meeting minutes that record meeting attendance, main points of discussion, agreed recommendations and action items.
3. The ERA will work with the MAC Secretariat to ensure contact details for the Working Group are maintained on the Working Group website.
4. The Working Group Chair will convene the Working Group upon request from the ERA or the MAC Chair.
5. The ERA will prepare and distribute all meeting correspondence to the Working Group via email.
6. The ERA will provide the following documentation by email to its Working Group stakeholder list in respect of a Working Group meeting:
  - a. notice of meeting and agenda at least 10 Business Days prior to the meeting;
  - b. relevant meeting papers at least 5 Business Days prior to the meeting; and
  - c. draft minutes no more than 5 Business Days following the meeting.
7. Except for draft minutes (which will only be emailed to attendees for comment), meeting documentation will be published on the Working Group's website as soon as practicable after issuance to the Working Group stakeholder list.

8. Attendees will be expected to:
  - a. advise the Working Group secretariat of their intent to attend a Working Group meeting at least 5 Business Days prior to the meeting; and
  - b. provide any feedback or endorsement to the draft minutes no more than 5 Business Days following distribution of the draft minutes.

## 6. Reporting arrangements

The Working Group Chair will provide an update to the MAC on the Working Group's progress at each MAC meeting. The update must include:

- a. details of the most recent Working Group meeting, including the date of the meeting and a list of the issues or proposals considered;
- b. the date of the next meeting and the issues or proposals to be considered (if known); and
- c. an indicative forward agenda.

## 7. Projected timeline

No.	Milestone	Date
1	Identify and prioritise issues	Mid Dec 2023
2	Discuss issues and provide recommendations	Feb/Mar 2024
3	Provide feedback on Procedure Change Proposal	Mar/Apr 2024
4	Review stakeholder feedback received during public consultation period	End April 2024
5	Update on ERA decision on Procedure Change Report	End May 2024
6	New WEM Procedure takes effect	June 2024

## 8. Contact details

1. Rule Participants and other stakeholders may contact the Working Group secretariat at [Market.Monitoring@erawa.com.au](mailto:Market.Monitoring@erawa.com.au).
2. Documentation and information related to the Working Group will be published on the [Working Group website](#).