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8 November 2023

Attn: Mr Jesse Barker
Economic Regulation Authority
4/469 Wellington Street
PERTH WA 6000

Dear Mr Barker

Draft determination: 2024 Benchmark Reserve Capacity Price for the 2026/27 Capacity Year

Synergy welcomes the opportunity to provide feedback on the draft 2024 Benchmark Reserve Capacity Price (**BRCP**) for the 2026-27 Capacity Year (**Draft determination**).¹

The Economic Regulation Authority (**ERA**) has proposed a 2024 BRCP of \$220,700 per megawatt per year. This is 14.1% higher than the previous 2023 BRCP of \$193,400 per megawatt per year, which the ERA has attributed to an increase in capital costs. Synergy agrees that it is appropriate to increase the BRCP given the reported growth in capital costs.

Synergy provides the following feedback regarding the cost escalation factors relied on in the ERA's draft determination.

Labour cost projections

PwC's recommendation forecasts higher growth in labour costs, compared to that observed in recent years. The forecasts relied on appear reasonable and reflective of likely trends for the relevant period.

Steel and copper price forecasts

PwC references the June 2023 quarterly report from the Office of the Chief Economist in its analysis of market trends for steel and copper.² It is noted that PwC has applied a similar approach to projecting steel and copper prices in prior years, and in the case of steel, it adopts an average of the compiled forecasts across different source markets. This approach appears reasonable in seeking to avoid overly granular or biased results, and PwC's analysis of market trends and projections seems consistent with that provided in the Office of the Chief Economist's forecast.

¹ [2024 Benchmark Reserve Capacity Price for the 2026-27 capacity year: Draft determination](#)


² [PwC 2024 Benchmark Reserve Capacity Price Cost Escalation Factors](#), p 13

Conclusion

As the ERA notes in its draft determination, Energy Policy WA (**EPWA**) is currently reviewing the Reserve Capacity Mechanism and WEM Investment Certainty. In particular, the RCM Review will consider the application of high emissions penalties to existing and new facilities and will inform the Coordinator's determination of the BRCP Reference Technology. At the time of writing, EPWA's BRCP Reference Technology review proposes changing the current reference OCGT generator to a Lithium Based Battery Energy Storage System. EPWA has indicated that the new reference technology will result in a higher BRCP than the existing OCGT reference generator due to:

- The carbon intensity threshold excluding liquid fuels, resulting in higher capital costs and/or gas transport charges; and
- Materially lower economic lives of Lithium BESS.³

Accordingly, the outcomes of the BRCP Reference Technology review will have implications for future BRCP determinations. The ERA will also commence its review of the BRCP Methodology after the conclusion of the RCM review, and result in changes to the ERA's BRCP procedure. Synergy looks forward to continuing engaging with both EPWA and the ERA in the future review and development of the BRCP.

Should you wish to discuss this submission, please contact 


Yours sincerely



RUDOLF VORSTER
MANAGER WHOLESALE STRATEGY & PLANNING

³ [Energy Policy WA Market Advisory Committee Meeting Papers, 12 October 2023](#), p 111