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9 May 2024

Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street,
PERTH WA 6000

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Dear Economic Regulation Authority,

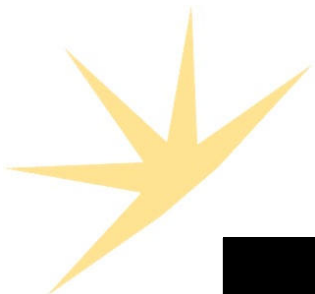
PROCEDURE CHANGE PROPOSAL: BENCHMARK RESERVE CAPACITY PRICE

Synergy welcomes the opportunity to provide a submission to the Economic Regulation Authority (**ERA**) on the *Procedure Change Proposal: Benchmark Reserve Capacity Price (BRCP Proposal)*.

Synergy commends the ERA on the work undertaken in the BRCP WEM Procedure Review Working Group and undertaking a timely review of the approach and methodology to determine the Benchmark Reserve Capacity Price (**BRCP**) following the Coordinator's BRCP Reference Technology Review. Synergy's detailed comments on the BRCP Proposal are outlined in the attached Table for the ERA's consideration.

Yours sincerely

[REDACTED]



[REDACTED]

Attachment 1.

#	Questions for Stakeholders	Synergy Comment
1	Should the BESS sub-chemistry be specified in the WEM Procedure?	Synergy considers that the ERA's proposed approach provides a reasonable balance of providing certainty to Market Participants and providing enough flexibility to ensure that assumptions remain accurate. Synergy notes that BESS technologies are maturing at rapid and varied rates and considers that the 3-year review process provides a reasonable mechanism to ensure that assumptions align with the technology choices of investors.
2	Is the lithium iron phosphate BESS a reasonable lithium sub-chemistry for the WEM Procedure?	Synergy considers this to be a reasonable assumption provided that the technology is capable of meeting the current technical requirements and specifications for Peak Capacity and Flexible Capacity.
3	Is the proposed approach for specifying that the Benchmark Capacity Providers must achieve 200 MW injection capacity and 800 MWh energy storage on day 1 of operation reasonable?	Synergy considers this approach is reasonable.
4	Is it reasonable for the WEM Procedure to <i>not</i> specify the degree of oversizing required for the Benchmark Capacity Providers to achieve 200 MW injection capacity and 800 MWh energy storage?	Synergy considers that it is reasonable for participants to determine their own degree of oversizing and that the WEM Procedure does not specify the degree of oversizing.
5	Is the process outlined in section 3.4 of the proposed WEM Procedure a reasonable approach for estimating transmission costs of the Benchmark Capacity Providers?	Synergy considers that this approach is reasonable.
6	Is estimating land costs as single, average land cost based on average land prices across the Kwinana and Pinjar regions a reasonable approach for the WEM Procedure?	Synergy considers that this approach is reasonable at the current time. However, notes that the site assumptions will need to be reviewed over time to consider network constraints and land availability to ensure that the assumptions continue to be reasonable for predictor of future project sites for future facilities.

#	Questions for Stakeholders	Synergy Comment
7	What is a reasonable approach to account for the treatment of expected degradation of the Benchmark Capacity Providers?	<p>The BRCP Proposal implies that degradation costs for a BESS can be included in a Market Participants offers in the Frequency Cooptimised Essential System Services (FCESS) and Real-Time Market (RTM). However, Synergy does not consider that the Offer Construction Guideline (OCG) clearly highlights that these costs can be included in offers or provide guidance on constructing compliant offers for a BESS.</p> <p>Synergy notes that BESS degradation is strongly correlated to the cycling patterns of a BESS and its participation in FCESS and RTM.</p> <p>The degradation is likely to be higher for a BESS that is certified for Flexible Capacity, compared to a BESS that is certified for Peak Capacity due to the increased requirements and obligations for Flexible Facilities.</p> <p>Synergy seeks clarity on how compliant offers may vary for BESS facilities in these circumstances. If the increased degradation costs of Flexible Facility are not expected to be able to be reasonably recovered from the RTM and FCESS markets, the Flexible Facility BRCP may need to include additional cost considerations due to higher degradation.</p> <p>Synergy suggests that further consideration may be needed to ensure that a reasonable level of degradation costs can be recovered from FCESS and RTM and FCESS markets.</p>
8	Is it reasonable for the WEM Procedure to specify a 15-year capital annuity period?	<p>Synergy supports the ERA's views that a 25-year annuity period is unreasonable for BESS facilities.</p> <p>Synergy notes that a 15-year asset life for a BESS aligns with assumptions of the BESS undertaking one-cycle a day. For a BESS facility that is solely undertaking load-shifting, this may be a reasonable assumption. However, this assumption will not apply to all BESS facilities. In particular, BESS facilities that provide FCESS and/or Flexible Capacity are likely to cycle more often and reducing the asset life.</p> <p>The assumptions for asset life and annuity period for Flexible Capacity may need further consideration to ensure that they align with market expectations and requirements. Further, Synergy suggests that the annuity period and asset life for BESS facilities should be monitored and reviewed as part of the ERA's triannual review process.</p>
9	Is it reasonable to retain the nominal pre-tax WACC for the purpose of estimating a long-term required rate of return?	<p>Synergy considers that it is reasonable to retain the use of a nominal pre-tax WACC for BESS facilities.</p> <p>Synergy notes that BRCP Proposal utilises WACC input values based on the gas rate of return instrument which Synergy considers is no longer appropriate due to the BRCP technology changing to a lithium-ion BESS.</p>

#	Questions for Stakeholders	Synergy Comment
10	Is it reasonable to retain the Annual Components (risk free rate, debt risk premium and corporate tax rate) and Fixed Components (market risk premium, equity beta, debt issuance costs, franking credit value and gearing ratio) of the WACC?	Synergy considers that the proposed approach is reasonable.
11	After considering new information and sources related to BESS projects, is it reasonable to increase the equity beta?	Synergy considers that the proposed approach is reasonable.
12	Is the annuity tilting approach a reasonable method to account for the expected decrease in BESS capital costs?	Synergy considers that the proposed approach is reasonable.
13	Is it reasonable to specify the value of the tilt multiplier (1.24) in the WEM Procedure?	Synergy considers that it is reasonable for the WEM Procedure to specify the value of the tilt multiplier in order to provide a level of certainty to Market Participants, with the value being able to be reviewed in the ERA's triennial review process. However, Synergy is not in a position to provide comment on the value of the tilt multiplier.
14	Is it reasonable to estimate capital costs of the Benchmark Capacity Providers as at 1 April of Year 3 of the Reserve Capacity Year?	Synergy considers that the proposed approach is reasonable.
15	Is it reasonable to estimate fixed O&M costs of the Benchmark Capacity Providers as at 1 October of Year 3 of the Reserve Capacity Year?	Synergy considers that the proposed approach is reasonable.
16	Is it reasonable to use the WACC to account for the cost of capital in the period between the investor raising the capital and receiving revenue from capacity credits?	Synergy notes that investors are likely to be subject to a debt margin during the period between raising capital and receiving revenue from capacity credits and further consideration is required.
17	Please provide your views on the procedure change proposal, including any objections or suggested revisions.	Synergy supports the ERA's work on the procedure change proposal, and refers to its responses regarding the above questions for the ERA's consideration in finalising the new BRCP procedure.
18	Please provide an assessment whether the Procedure Change Proposal is consistent with the WEM Objectives and the WEM Rules.	Synergy refers to its above queries regarding the interaction between OCG and the BRCP Proposal, and considers that it is unable to provide views on this question prior to the finalisation of the BRCP procedure
19	Please indicate if the procedure change proposal will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.	Synergy does not consider that it will have large implications for its organisation
20	Please indicate the time required for your organisation to implement the changes, should they be accepted as proposed.	Synergy does not consider that it will have implementation requirements.