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Public Utilities Office, Department of Treasury
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Submitted via email: PUOSubmissions@treasury.wa.gov.au

28 September 2018

Dear Mr. Martin

RE: Improving reserve capacity pricing signals – a proposed capacity pricing model, draft recommendations report, dated 22 August 2018.

Thank you for the opportunity to provide feedback on the Public Utilities Office's draft recommendations report on improving reserve capacity pricing signals.

EnerNOC is an independent demand response aggregator with experience operating in twelve countries. We work with commercial and industrial energy users to enable dispatchable demand-side flexibility, and offer that flexibility into wholesale capacity, energy, and ancillary services markets, as well as to networks and utilities. Locally, EnerNOC is a market participant in the Wholesale Electricity Market (WEM) and the National Electricity Market (NEM). EnerNOC's regional head office for Asia-Pacific is in Melbourne. In 2017, EnerNOC became part of the Enel Group, and will soon be re-branded as EnelX.

Although supply and demand side resources play an equivalent role in supporting the WEM's desired reliability outcomes, the reserve capacity mechanism does not currently value them equivalently. EnerNOC therefore strongly supports the PUO's draft recommendation that demand side resources be remunerated using the same price as other forms of capacity. EnerNOC encourages the PUO to progress these reforms in a way that supports not just price harmonisation, but also harmonisation between the regulatory requirements that apply to supply and demand side resources, whilst accommodating their different technical characteristics.

EnerNOC's comments on specific aspects of the draft recommendations report are outlined below. We look forward to continued engagement with the PUO on these improvements to the reserve capacity pricing arrangements. If you have any questions relating to this submission, please contact Phachara Niumsawatt on (03) 8643 5937 or pniumsawatt@enernoc.com.

Regards

Jeff Renaud
Vice President and Managing Director – Asia Pacific

PUO draft recommendation: That demand side resources receive the same price as other forms of capacity.

As set out in EnerNOC's submission to the PUO's consultation paper, the 2016 transitional arrangements introduced by the former government have discriminated against demand side resources and caused them to exit the market en masse. This has resulted in higher market-wide capacity costs and has rendered the WEM an outlier amongst global capacity markets.

EnerNOC agrees with the PUO that demand side resources can provide considerable value to an electricity system, and strongly agrees with its draft recommendation that demand side resources be remunerated using the same price as other forms of capacity.

A pricing methodology that applies equally to both the supply and demand sides more closely aligns with the objectives of the WEM as set out in the WEM rules, specifically to:

- avoid discrimination ... against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions
- minimise the long-term cost of electricity supplied to customers from the South West interconnected system
- encourage the taking of measures to manage the amount of electricity used and when it is used.¹

Such an approach is likely to re-incentivise mothballed demand side capacity resources back into the reserve capacity mechanism, and thus reduce market-wide capacity costs. It would also bring the WEM into line with best practice in global capacity markets – many of which, as set out in our submission to the consultation paper, remunerate demand side resources the same as supply side resources.

We look forward to continued engagement with the PUO on the detailed arrangements to implement this recommendation.

PUO draft recommendation: Construct an administered capacity pricing curve by drawing a line between the price cap, economic zero point and absolute zero point.

EnerNOC generally supports the PUO's proposed method for constructing the administered capacity pricing curve, and notes that this approach is similar to the pricing structure used in international capacity markets. However, EnerNOC cautions against making the curve too steep. While steeper curves will achieve greater quantity certainty, they risk producing more price volatility as capacity needs change. The curve should not be so steep that the entry of just one plant would suppress prices to near zero for many years; similarly, the exit of just one plant should not cause prices to rise to the cap.

As recognised by PUO in its report, there is significant international experience that can be drawn upon to develop an appropriate administered capacity pricing curve for the WEM.

PUO draft recommendation: That demand side resources be required to provide a reserve capacity security of 25 per cent of annual capacity payments each year of capacity certification.

¹ See clause 1.2.1 of the WEM rules.

The report recommends that demand side resources be required to provide a reserve capacity security each year of capacity certification to mitigate the risk of these resources being over-rewarded under the new capacity pricing model. The PUO notes that such a requirement is analogous to the investment that a supply side investor must make to develop a capacity resource.

While the upfront investment costs are likely to not be as great as a large generator's, it is important to recognise that enabling flexibility in demand side resources also requires an upfront investment by both the customer and the flexibility provider. Thus the decision to participate in the reserve capacity mechanism is not risk free for providers of flexibility or their customers.

Nevertheless, EnerNOC is comfortable with this recommendation, provided that there continues to be flexibility in what form the reserve capacity deposit can take. Currently, market participants are able to provide reserve capacity security in the form of a guarantee, bank undertaking or security deposit.²

PUO draft recommendation: That there be more stringent testing of demand side resources through the use of yearly random testing requiring load curtailment equivalent to the level of capacity certification.

EnerNOC supports the development of a robust testing regime to ensure resource reliability, and assumes that the specifics of these proposed testing arrangements will be developed in consultation with stakeholders in the implementation of these reforms. Specifically, EnerNOC seeks clarity on the link between the random testing and the level of certified reserve capacity assigned to the facility.

PUO draft recommendation: That demand side resources not be eligible for the proposed 5-year price lock-in for new participants.

The report recommends that new capacity resources be given an option to lock in the capacity price at the time of market entry, for a maximum of five years, to facilitate investment under a steeper administered pricing curve. The report also recommends that this ability not be extended to demand side resources.

As noted above, enabling flexibility in demand side resources requires an upfront investment by both the customer and the flexibility provider, and so the decision to participate in the reserve capacity mechanism is not risk free. Allowing all potential capacity providers this lock-in ability would support revenue certainty for all capacity providers. It would also promote regulatory consistency between both the supply and demand sides.

Nevertheless, EnerNOC is comfortable with this recommendation.

PUO draft recommendation: That the proposed changes be implemented for introduction in time for the 2019 reserve capacity cycle.

The draft recommendations report notes that a number of processes and system changes will need to occur to implement the proposed reforms. EnerNOC acknowledges that timing is tight to have these completed by the time that applications for capacity credits for the 2018 capacity cycle close in February 2019.

That said, EnerNOC is of the view that these processes should be expedited, or staged, to the extent feasible so that the benefits of the proposed changes can be realised as soon as possible.

² See clause 3.3.3 of AEMO's *Reserve capacity security guideline*, Nov 2017.