



Enel X Australia Pty Ltd
Level 34, 140 William Street
Melbourne, Victoria 3000
Australia
T +61-3-8643-5900
www.enelx.com/au/

EPWA

Submitted via email: energymarkets@dmirs.wa.gov.au

8 July 2024

Dear EPWA

RE: 2024 Supplementary Capacity Review – Consultation Paper

Thank you for the opportunity to provide feedback on the consultation for the 2024 Supplementary Capacity Review.

Enel X works with commercial and industrial energy users to develop demand-side flexibility and offer it into capacity, energy and ancillary services markets worldwide, as well as to network businesses. In Western Australia, Enel X built a 60 MW portfolio of supplementary reserve capacity for 2023-24, and have recently a 120 MW portfolio of flexible demand capacity under the NCESS framework coming online for 2024-26.

This submission sets out our feedback on the consultation paper. It focuses on those changes relevant to demand side programmes, and in particular the proposal to adjust the requirements to publish tender details to include availability and activation price for each contract. In summary:

- We agree in theory that the standard form contract should be aligned, to the extent possible, with the requirements in the WEM Rules that apply to the participants in RCM and note the amended dynamic baseline for DSPs participating in the RCM is currently undergoing consultation.
- We do not support the proposed method of providing greater transparency on costs of supplementary capacity. We do not agree that the proposed method delivers on the objectives to encourage more competition and therefore minimise long-term cost of electricity in the SWIS. We recommend an alternative approach that focuses on achieving the stated aim by encouraging greater competition through blind bidding.
- We do not support the proposed removal of the maximum contract value per hour in the call for tender. The rationale provided for the contract price shadowing the maximum price does not capture the nuance behind this correlation to date. We recommend maintaining this policy and acknowledge that undersubscription likely means that there are not enough resources currently available and without a cap this cost may have been higher.
- We encourage capacity payments that incentivise loads rather than activation style payments and short-term negotiations for short term supplementary capacity responses during the hot season.

We would like to thank EPWA for conducting such a thorough and consultative process throughout this review. We look forward to continuing to work with EPWA on other ways in which the demand side can play a greater role in delivering security and reliability in the WEM.

If you have any questions or would like to discuss this submission further, please contact me.

Regards

Carl Hutchinson
Country Manager, ANZ
carl.hutchinson@enel.com

Consistency between matters specified in the supplementary capacity standard form contract and the WEM Rules

Proposal 2

Clause 4.24.14A of the WEM Rules will be amended to clarify that matters specified in the standard form contract should be aligned, to the extent practical, with the requirements in the WEM Rules that apply to participants in the RCM. It is proposed that this should include, but not be limited to, measurement methods (including baseline methodology for demand side services) and notice periods.

Enel X agrees with this amendment in theory but would like to see the final amendment and the outcomes from the amended dynamic baseline for DSPs participating in the RCM consultation before providing a definitive view on this proposal. We note that the proposed amendments to clause 4.24.14A will not come into effect until the later of:

- The end of the next Hot Season, 1 April 2025; and
- The date on which the WEM Amending Rules introducing the new DSP dynamic baseline are made.

Maximum supplementary capacity price

Proposal 3

The requirements under clauses 4.24.6(g) and 4.24.1B(g) of the WEM Rules to publish the maximum contract value per hour will be removed.

To ensure transparency to the market regarding the costs of the supplementary capacity, clause 4.24.11B of the WEM Rules will be amended to include an obligation for AEMO to publish the availability and activation price associated with each contract.

Enel X does not support the proposed removal of the maximum contract value per hour in the call for tender. The rationale provided for the contract price shadowing the maximum price does not capture the nuance behind this correlation to date. We recommend maintaining this requirement and acknowledge that undersubscription likely means that there are not enough resources currently available and without a cap this maximum cost would have been higher.

Enel X does not support the proposed method of providing greater transparency on costs of supplementary capacity through the publication of availability and activation price associated with each contract. We do not agree that the defined method delivers on the objectives to encourage more competition between providers and therefore minimise long-term cost of electricity in the SWIS as currently proposed. We recommend an alternative approach that focuses on achieving the stated aim by encouraging greater competition though not providing further commercial payments but maintains publication of the maximum contract value per hour to provide a price ceiling and ensure ongoing competition and suite of pricing below this maximum.

Enel X proposes that the following arguments in favour of the current publication requirements before adjusting these for AEMO as defined in Proposal 3:

1. Prioritise quality, reliable and effective capacity with a portfolio customer view

The view expressed in the Consultation Paper that the current maximum contract value per hour publication has caused shadowing of the maximum price is not based on a holistic analysis of current market dynamics. Enel X understands and acknowledges what has caused this perceived shadowing of the maximum price is due to undersubscription, which suggests that there are not enough resources currently available and without a cap this maximum cost would have been higher. Therefore, we see value in maintaining the publication of the maximum contract value per hour to avoid a perverse outcome where pricing may go even higher.

Enel X recommends taking a nuanced view on portfolios and ensure that the push for pricing transparency does not have an adverse outcome of pushing out providers who have portfolios of customers with high opportunity costs. These customers often required different incentives to participate but have a strong track record of providing reliable, effective and high-quality capacity into the system. Providing full pricing transparency may force out effective and reliable capacity customers who will not be able to justify participation at a lower price point compared to less reliable customers with lower opportunity costs but less tested and less reliable capacity. Taking this nuanced and portfolio level view aligns with WEM Objectives 1.2.1(a), (b) and (d).

2. Maintain the current arrangements by publishing of maximum contract value per hour

Enel X supports maintaining the current publication of the maximum contract value per hour as it provides a price cap and ensures competition and pricing below this amount.

There are several economic benefits in the current arrangement which are not reflected in the proposed changes:

- (a) **Increased competition and ensuring a portfolio view on pricing** – blind tenders encourage new participants and prevent collusion ensuring that the most competitive prices are encouraged. Full pricing parameters will create bias and price anchoring. The current system provides a price cap which ensures that prices will not continually increase but allows for reliable and quality capacity to be bid in without creating a perverse outcome where a particular client's opportunity costs may mean strong capacity is no longer bid in due to favouring clients with low opportunity costs and less reliable or unproven capacity.
- (b) **Drive the best possible pricing outcomes** – by not publishing a full pricing envelope and ensuring every organisation actively reviews their best price offer without price anchoring or influence you can ensure WEM Objective 1.2.1(d) to minimise the long-term costs of electricity supplied to customers on the SWIS. Without this there is no encouragement of new and old organisations to reduce costs over time as shadowing of mid-point contract values per hour will likely occur if continued blind bidding is removed.
- (c) **Encourage innovation and quality** – without the influence of other competitors' bids, all organisations are encouraged to focus on the quality of capacity provided, innovation and cost efficiencies in their bids rather than just focusing on previous price points which will likely lead to less competitive pricing in the long-term.

Introduction of an alternative supplementary capacity product

Request for further feedback

1. Interested in the introduction of an activation payment only contract?

(a) If so, what factors would be considered important for an activation only contract to be attractive to an organisation? For example, certain activation notice periods, payment terms or price?

(b) If not, what factors would deter participation in a tender for this type of product?

2. Willing to enter into short term negotiations to provide short-term supplementary capacity response during the Hot Season without a pre-existing contract?

(a) This may involve, by way of example, direct negotiations in the lead up to a heatwave to provide capacity/reduce demand for a limited, specified time (possibly 2-3 hours a day over 1-2 days) at a specified price.

(b) It is anticipated this would only be used if it is expected that without procuring this additional capacity manual load shedding would be required.

Enel X encourages capacity payments that incentivises loads rather than activation style payments. We believe this provides better value to the SWIS as AEMO is not forced to procure capacity when it is urgent and there may be less price competition and aligns well with the WEM Objectives 1.2.1(a) and (d). In our experience the certainty of revenue pending successful performance payments is easier for Commercial and Industrial loads as it is a more compelling customer proposition.

Demand response is a valuable resource that is key to achieving the objectives of supplementary capacity, for the following reasons:

- **Perfectly suited to providing emergency reserves.** The objective of the supplementary capacity mechanism is to help bring new capacity into the market that can respond quickly to support reliability in a small number of critical grid periods (i.e. the Hot Season or LOR events) per year, for around four hours. Demand response resources are perfectly suited to providing this kind of response, and are arguably the best-suited type of resource. These resources have a track record of providing this type of response both in Australia (e.g. through the RERT mechanism, NCESS and SRC and in response to high pricing events) and internationally.
- **Cost effective.** Demand response is a lower cost resource than supply-side capacity because it utilises the capability of existing assets. The capex required to activate 1 MW of demand response capacity is a fraction of what is required to build 1 MW of supply-side capacity.
- **Can be built very quickly.** Demand response can be brought to market very quickly, again because it makes use of existing assets.

- **Reduces requirement for new grid infrastructure.** The utilisation of demand response resources reduces the need to build and pay for new generation and network infrastructure that only gets used for a small number of hours in the year. AEMO’s 2023 ESOO notes that “with a high level of consumer participation and coordination of consumer energy assets and demand to help meet power system needs, the need for utility-scale solutions would be much lower.”
- **No social licence concerns.** No new grid infrastructure is required to enable a demand response resource, and participation is voluntary.
- **Financial benefits go back into the community.** The financial benefits of providing demand response accrue to those who provide it, i.e. Australia’s commercial and industrial businesses.
- **Aggregation delivers reliability.** Aggregation of demand response resources across different locations / transmission nodes delivers a highly reliable source of capacity, as there is no single point of failure.
- **Valuable grid resource.** Demand response resources are capable of delivering more than emergency reserves. Once in the market, they can provide other valuable grid services, such as frequency control and network support services.
- **Supports transition to net zero.** Demand response is generally dispatched in critical peak periods when the majority of the fossil fuel fleet is in operation. Reducing demand on the grid therefore reduces the requirement for these emissions-intensive resources.
- **Alleviates grid congestion.** Activation of demand response responses helps to alleviate network congestion in peak periods by reducing the amount of electricity drawn from the grid, in contrast to supply-side resources, which can exacerbate grid congestion.

A series of recent and ongoing reforms implemented by Energy Policy WA are significantly improving the ability of demand response to participate in WA markets, including in the reserve capacity mechanism (RCM), supplementary reserve capacity (SRC) mechanism and the non-co-optimised essential system services (NCESS). If these payments will build on these reforms and strengthen incentives for demand response resources to enter the market they will need to providing access to additional firm revenue. We believe that if the electricity market that wishes to see strong levels of demand side participation and capacity must have two things:

1. Market rules that allow demand response to participate
2. Firm revenue for demand response resources based on load rather than short-term activation payments.

Supplementary Comments on SRC forecasting

Enel X would like to make an additional comment in relation to Supplementary Reserve Capacity mechanism. Generally last season (2023) it was well run and smooth compared to previous years. We commend you that the dispatch calls were generally understandable with clear supply / demand issue.

Enel X did, in the spirit of continual improvement, want to highlight that other dispatch calls were less clear, particularly when the conditions did not necessarily warrant a dispatch request. Enel X

now understands that this was due to AEMO forecasting not being accurate in some situations. There were between 2-4 of the 14 dispatch requests provided to Enel X that fell within this unclear dispatch category. Therefore, Enel X believes it may be worth considering if there is an economic value in improving AEMO forecasting for future seasons.