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Submitted via email  
15 August 2024

Dear Energy Policy WA

**RE: Wholesale Electricity Market (WEM) Investment Certainty Review (Initiatives 1 & 2) (WIC) consultation paper**

Thank you for the opportunity to provide feedback on the *WEM Investment Certainty Review (Initiatives 1 & 2) consultation paper*.

As you are aware, Enel X operates Australia's largest virtual power plant.<sup>1</sup> We work with commercial and industrial energy users to develop demand-side flexibility and offer it into the WEM's energy, capacity and ancillary services markets, the reliability and emergency reserve trader mechanism, and to network businesses.

We applaud EPWA for engaging how best to deliver price signals which drive efficient investment in low emissions capacity. This is critical to accelerate the energy transition and Australia is falling behind in this transition. We need to encourage investment in the demand side and use every tool available to meet decarbonisation targets while encouraging energy efficiency and grid stability in the SWIS. We consider demand response and electric storage resources to be a critical element for the energy transition, grid security and reliability. Enel X has the following high-level points on the consultation paper:

- **The Reserve Capacity Mechanism (RCM) is a key tool in supporting the renewable energy transition in the WEM.** Revenues from RCM complement other energy market revenues, which increases the attractiveness of investment in the WEM.
- **The current RCM creates investment uncertainty.** It is difficult to invest in given the lack of transparency on the RCP in advance of bidding into the mechanism. From a commercial perspective there is prohibitive uncertainty surrounding each key element of the RCM. We encourage EPWA to identify a way in which some price certainty can be provided for participants, particularly demand response providers before they need to commit capacity.
- **The current Reserve Capacity Mechanism currently creates a chilling effect on the level of investment and capacity bid into the market and the proposed deadband does not address this issue.**
  - RCM currently lacks the ability for capacity suppliers to make price offers or lock in certain returns in the case of demand response providers. This creates uncertainty to new entrants who require a minimum capacity credit price to provide the service. The ability to make price offers exists in international capacity markets. This ability to make

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<sup>1</sup> Per AEMO Registrations

- price offers increases the effectiveness of the market and promotes more demand response capacity being bid into the market.
- Managing volatility and uncertainty in the RCP is critical for commercial entities, particularly demand response providers, when obtaining funding for new capacity investment and projects. This is particularly important when calculating and obtaining funding for the reserve capacity security where the RCP is set at the highest potential reserve capacity price and needs to be obtained and paid 2 years in advance of participating in the RCM year.
  - The deadband presented in the consultation paper removes all volatility in the RCP between 95% and 105% of the RCT and transfers it to periods where the RCT is less than 95% or more than 105% than the RCT.
  - Enel X recommends a more gradual transition of the RCP between 95% and 105% of the RCT via a curve with an inflection point. This would spread out the volatility in the RCP evenly.
  - The proposed RCP curve a deadband in the consultation paper with will result in no additional investment signal in times of shortfall between 95% to 100% of the RCT.
- **These uncertainties mean that any commercial organisation making an investment decision in the RCM will project lower revenues and reduce potential new investment.** Any potential supplier has no control or pre-investment transparency over any of these variables (BRCP, RCP and capacity credits) resulting in reduced investment given the lack of certainty.

We look forward to working with the EPWA on these issues. If you have any questions or would like to discuss with us further, please do not hesitate to contact me directly.

Regards

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## Feedback on the Proposals in the Consultation Paper

This section sets out our feedback on the consultation paper. The key points Enel X would like to provide feedback on are:

- **Proposals 1-3 – Enel X does not support the combined effect of setting the Peak RCP at 100% of the BRCP at the Peak RCT, along with a deadband when the number of Peak Capacity Credits provided is between 95-105% of the Peak RCT, and an RCP cap set at the maximum of 150% of the Peak BRCP.** Relative to the existing curve, this creates less value when Peak Capacity Credits allocated are in a range close to the target capacity, instead shifting value to years in which there is a significant shortfall of Peak Capacity Credits assigned. If the aim is to incentivise investment in capacity, which we agree it should be, then it is important to provide value under a range of circumstances rather than a chance of high returns in an unlikely scenario. Other options that would work are to provide a deadband setting, but setting RCP at 130% of BRCP in that deadband range, or reducing the maximum Peak RCP in return for a higher Peak RCP when Peak Capacity Credits allocated are close to the RCT. Investors are generally more likely to invest when the risk of low returns is slight, more so than a situation in which an upside risk of high returns exists.
- **Proposal 4 – Enel X supports the RCP floor set at a minimum RCP at 50% of the Peak BRCP, when the number of Peak Capacity Credits provided is greater than or equal to 115% of the Peak RCT.** This floor would provide certainty to potential investors as it would address the worst-case scenario of no capacity credits. As stated above, this will have a more powerful effect on incentivising investment than the possibility of a high return in rare circumstances.
- **General feedback on the BRCP and new reference technology:** the Consultation Paper states on page 20 that “new reference technology (lithium-ion based BESS) will result in a higher BRCP than the existing”. There is no analysis, data or assumptions provided in the Paper on how this conclusion is reached. It would assist to provide transparency on this calculation and how the new reference technology will result in a higher BRCP. We also caution EPWA that they do not overly lower the rate and investment signal in that ~93% - 103% range in which we expect the market to settle. We acknowledge that the increase in BRCP may dampen this effect, but nevertheless skewing too much profit to the <85% range at the expense of the 90-105% range does not appear to be the best trade-off.