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Energy Policy WA
Department of Mines, Industry Regulation and Safety
Submitted via e-mail: energymarkets@dmirs.wa.gov.au
9 December 2024

Dear Energy Policy WA team,

RE: Exposure Draft of WEM Investment Certainty and RCM Review Amending Rules

Thank you for the opportunity to provide feedback on the ‘*Exposure Draft of WEM Investment Certainty and RCM Review Amending Rules*’.

Enel X operates Australia’s largest dispatchable virtual power plant¹. We work with commercial and industrial energy users to develop demand-side flexibility and offer it into the Wholesale Electricity Market (WEM) capacity market, the National Electricity Market (NEM) Wholesale Demand Response Mechanism, ancillary services markets, reliability and emergency reserve trader mechanisms, and to network businesses. Enel X have been awarded capacity credits for the 2026-27 Reserve Capacity Mechanism cycle.

We applaud EPWA for engaging on 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 WEM. We consider demand response and electric storage resources to be critical elements for the energy transition, grid security and reliability.

Enel X has the following high-level comments on the Exposure Draft:

Part 1 - Draft WEM Amending Rules to implement the review outcomes for Initiatives 1 and 2 of the Wholesale Electricity Market (WEM) Investment Certainty (WIC) Review

- **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.
- **Demand Side Programmes (DSP) deliver cost effective, timely, diverse, and readily scalable contributions to grid security and reliability,** with lower project delivery risk than ‘greenfield’ assets. Enel X support EPWA’s view ‘...that demand response is an important part of ensuring supply adequacy, and that the changes to demand response requirements for DSPs made in the RCM Review and the DSR Review will mitigate the potential for payments to parties that do not contribute to system reliability...’.
- **Setting minimum price of the Peak RCP at 50% of the BRCP for all resources** signals to the demand-side that their contribution is valued and investments to activate demand response have ongoing support.
- **Efficient deployment of DSP resources is boosted by aggregations of geographically diverse resources.** Aggregation limitations across Transmission Nodes (TN), particularly when the setting of those TNs is not timely or consistent has the potential to unnecessarily constrain DSPs.

¹ Per AEMO Registrations

Part 2 - Draft WEM Amending Rules implementing Reserve Capacity Reform Rules including the determination of the Individual Reserve Capacity Requirement (IRCR) of Associated Loads that are part of a Demand Side Programme dispatched during an IRCR Interval

- **Associating DSP aggregations with Transmission Node Identifiers increases operational risks for DSP operators.** The ability for DSP aggregators to operationalize participation in the RCM is strongly influenced by the timely availability of TN identifiers (4.4B.9(f)) and the ability to allocate TN identifiers to resources (2.29.5AB, 2.29.5AD). These risks have the potential to constrain the economically available DSP resource pool with little benefit in reducing costs to consumers.
- **Furthermore, Enel X notes that the proposed Rules (Clause 2.29.5AD) are tolerant of ‘in-year’ decoupling of TN changes so questions if DSP association with TN identifiers is practically needed.** We suggest that the benefits of portfolio diversity and operational simplification warrant further consideration of the required granularity of TN association needed for market operations. Grouping TNs into regions for the purpose of DSPs may provide a better balance for managing market operations and activating low-cost demand-side resources.
- **Enel X recommend using the Adjusted Baseline Energy rather than the Unadjusted Baseline Energy method to avoid punitive ‘counterfactual’ IRCR exposure during a DSP dispatch event.** Enel X have examined a range of real-world scenarios and have identified that the Unadjusted Baseline Energy method can lead to punitive IRCR quantities for Associated Loads in a DSP. Adjusting the baseline to reflect operations on the day, avoids allocating unfair IRCR quantities to a site that has already reduced its load (e.g. a process load has tripped) but is part of a DSP aggregation that was dispatched for RCM. In this scenario there’s no RCM benefit for the load and an over-estimated counterfactual is applied unfairly increasing the costs of the load (see Appendix).
- **End-users aren’t ready to make an informed choice between DSP capacity payments or IRCR management contracts. Delaying the proposed 2.29.5B and 2.29.5E amendments until the 2027-28 capacity cycle would provide end-users with the operational insights to select the pathway which meets their needs. The proposed amendments to clauses 2.29.5B and 2.29.5E require end users to choose between IRCR management and DSP contracts and fail ‘to meet end users where they are’ which risks poor uptake of the less familiar DSP option.** Enel X has made progress enrolling end-users for the 2026-27 capacity cycle on the basis that only co-incident DSP dispatch and IRCR interval events would be exposed to financial adjustments, and other IRCR activities would remain unaffected. End-users have experience operating facilities to manage IRCR cost exposures but have not had the opportunity to work within a DSP under the revised framework. Enel X are wary that already contracted DSP resources may seek to focus on IRCR management. Enel X foresee DSP uptake benefits by providing a transition period where end-users face less restrictive requirements on IRCR management.
- **DSP aggregators have limited legally sound options to make representations on forward looking behaviour of Associated Loads.** With respect to Clause 2.29.5B(f) it is difficult for a DSP aggregator to provide a definitive statement regarding future activities of a contracted Associated Load. If absolutely required, the intent of Clause 2.29.5B(f) may be more readily achieved if a DSP aggregator was required to obtain an undertaking from the contracted Associated Load that the Associated Load will not participate in an arrangement for the purpose of reducing Capacity Purchaser Payments.

We have included a more detailed discussion of some of the points raised above in the Appendix to this letter.

We would be happy to elaborate on any of our comments. If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Kind Regards,

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Appendix to Enel X submission - Exposure Draft of WEM Investment Certainty and RCM Review Amending Rules

Adjusted Baseline for 'counterfactual' IRCR

Enel X have examined a range of real-world scenarios and have identified that the Unadjusted Baseline Energy method can lead to punitive IRCR quantities for Associated Loads in a DSP.

Example 1.

Consider a DSP aggregation that includes a site typically consuming 10MW to support minerals processing activities. For baseline performance reasons the DSP aggregator has nominated an Adjusted Baseline to determine the Relevant Demand.

On the morning of a day of a DSP dispatch a processing component fails, and the minerals processing activities cease, reducing the power drawn from the grid to 1MW.

When the DSP aggregation is dispatched the site load is reduced to 0MW. For the RCM the Adjusted Baseline is applied and the Relevant Demand for the Demand Side Programme is 1MW.

Simultaneously, the Unadjusted Baseline Energy is calculated for a Peak IRCR interval as 5MWh (or 10MW).

In this example the site has provided the RCM 1MW but has 10MW of demand assigned for IRCR settlements. This allocation of IRCR is an overstatement of the IRCR charges that would be accrued had the DSP not been called.

Excluding loads managing Capacity Purchaser Payments from Demand Side Programmes

Enel X recommend delaying the proposed 2.29.5B and 2.29.5E amendments until the 2027-28 capacity cycle to provide end-users with the opportunity to experience the relative merits of either managing Capacity Purchaser Payments or participating in a DSP.

The proposed Appendix 5 amendments neutralise any IRCR reduction benefit during a DSP dispatch interval by replacing metered energy for the calculating Capacity Purchaser Payments with a counterfactual baseline.

In addition to this adjustment, the Exposure Draft introduced clause 2.29.5E(i) into the process of associating loads with a Demand Side Programme seeking to avoid a situation in which the same load is subject to both IRCR reduction contracts and DSP capacity payments.

Enel X believe this additional measure will dissuade end-users from building DSP experience under the reformed RCM framework as IRCR management is better understood by end-users. Enel X believe an abrupt transition is unnecessary and not in the best interest of consumers in the WEM as this provision has the potential to:

- Increase Peak Capacity requirements
- Reduce predictability and visibility of load
- Increase Peak Capacity costs

Impact on Peak Capacity Requirements

Requiring loads to prioritise either DSP participation or IRCR cost management may create a pool of invisible flexible loads not willing to participate in a dispatchable DSP due to greater familiarity responding to Peak IRCR period cost signals.

Diminished visibility, dispatchability and resource co-ordination may ultimately lead to greater forecasting uncertainty and increase the peak capacity required to maintain reliability. As no efficiency gains are associated with excess capacity the resulting additional costs are wealth transfers from consumers to capacity providers.

Building confidence in DSP participation

A vibrant DSP sector directly addresses many of the emerging uncertainties from a transition to variable renewable energy resources, and ultimately lowers peak capacity costs and risk for all energy users.

In Enel X's experience, it is important to provide opportunities for DSP participation that meet end-users existing comfort level before progressing to more sophisticated programs. Foregoing IRCR management for DSP participation may fall outside the comfort level of some end-users.

A transition period where end-users can participate in a DSP while managing IRCR increases the likelihood that end-users will ultimately choose DSP participation with the associated benefits to power system security and reliability from greater visibility and dispatchability.