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Energy Policy WA
 Department of Mines, Industry Regulation and Safety

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

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Dear EPWA

RE: Exposure Draft: Individual Reserve Capacity Requirement adjustment for Associated Loads

Thank you for the opportunity to provide feedback on this proposed rule change.

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 has participated in the Supplementary Reserves Capacity and Non-Co-optimised Essential System Services – Reliability programs as well as helped energy users minimise their capacity charges through the IRCR mechanism. We have also been awarded capacity credits for the 2026-27 Reserve Capacity Mechanism cycle.

Enel X does not support this proposed rule change. We do not feel this is sufficiently well thought-out and has a significant risk of unintended consequences that prevent participation in RCM. The rule change as proposed creates 1) issues with fairness, 2) issues with placing risks on consumers that are not well-placed to manage them and 3) it risks dramatically chilling the level of demand-side participation in RCM.

Fairness issues:

- This rule change would allocate the adjustment to the SOMS in two ways that is inequitable.
 - The first is it penalises larger consumers / exporters, regardless of the amount of demand reduction they can or did provide. For example, if a DSP had a 50 MW load and a 2 MW load and each provide 2 MW of demand reduction during dispatches, the vast majority of that adjustment will be allocated to the 50 MW load despite the two loads' equal share in providing demand reduction. It is quite feasible that the increase in IRCR charge would fully outweigh any earnings from participating in the RCM.
 - The second is that the level of demand reduction provided during dispatch is not factored into the adjustment. So a DSP with two 2 MW loads, where the first provides a 200kW reduction and the other provides a 2 MW reduction, would result in the first having a Deemed DSP Dispatch Contribution higher than 2 MW; a level higher than the Associated Load ever consumes. Again, it is quite feasible that the increased IRCR charge would fully outweigh any RCM earnings.

Both these scenarios are quite likely to occur. They are not fanciful situations. In an aggregated portfolio across multiple TNIs, like Enel X has, there will certainly be several situations like this occurring. And as such, some Associated Loads will suffer such inequitable results.

We would note it is infeasible for an aggregator like Enel X to avoid such situations arising. Given the need to disaggregate DSPs to only being within a single TNI, it becomes economically infeasible to disaggregate further to only situate like-sized customers with like-sized levels of flexibility in a given DSP.

- The concept of 'user pays' has been a guiding principal for other proposed changes to the IRCR mechanism, such as the removal of the discount for Non Temperature Dependent Loads. This rule change is antithetical to the concept of 'user pays' in two ways:
 1. Under this rule, users who have no consumption at the time of a Peak IRCR or Flexible IRCR Interval will still be required to pay capacity charges despite not making any contribution to peak intervals.
 2. The allocation of load reduction is not done at an individual level. In the interest of fairness IRCR has always been calculated purely on an individual basis and this is a departure from that standard. The amount of IRCR calculated in this proposed method varies significantly from their individual load reduction and will often exceed their maximum possible load as in the above example.

Placing risk on consumers that are not well-placed to manage them:

The inequitable impacts highlighted above will be borne by the end-user who agrees to participate in a DSP, not by the Market Participant who manages and puts together the DSP aggregations. These end-users are not well-placed to manage these risks. For one, they are not necessarily energy experts who can calculate the likelihood of overlap between RCM dispatches and IRCR intervals and the corresponding impacts. More critically, they have no say over who they are aggregated with in a DSP and therefore no ability to control whether they are subjected to such inequitable impacts as highlighted above.

Chilling the level of demand-side participation in RCM

The combined impact of the points raised above is that a significant number of end-users will avoid participating in RCM due to risks that are difficult to quantify both in terms of likelihood and magnitude. This will also reduce the incentive of Market Participants investing in providing reserve capacity through DSPs because of increased difficulty—and therefore cost—in recruiting customers.

While we understand the intent behind the proposed rule change, we believe it may be unnecessary and could lead to unintended consequences. The best way to avoid paying for over-compensating demand-side capacity is through the baselining process. We would like to point out to EPWA that the current method of baselining (10-of-10) already greatly reduces the ability to enrol end-users who actively manage their IRCR charge in programs such as RCM (or NCESS or Supplementary Capacity). This is because load reduction in days leading up to, or on the day of, an RCM dispatch, results in an eroded baseline and therefore penalises the RCM performance. And such negative impacts on RCM performance are already accounted for by aggregators such as Enel X when nominating the capacity of DSPs. This is a better solution for several reasons:

1. It does not penalise end-users in unpredictable and inequitable ways.
2. It puts the risk on the Market Participant (the aggregator) who is better placed to assess and manage it.

We would welcome the opportunity to engage further with EPWA on this issue, as we are deeply concerned with the implications of the current proposal.

Regards

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