

Wholesale Electricity Markets, Energy Policy WA - DEED

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## Enel X Submission CC2TR Consultation

### Summary

Enel X supports the overall direction of the Capability Class 2 Technologies Review and recognises the importance of ensuring that both DSPs and ESRs continue to contribute effectively to the reliability of the SWIS as the generation mix evolves.

With respect to Proposal 2, Enel X supports the objective of aligning DSP availability obligations with emerging system needs. However, we consider that the long-term success of the reform will depend on maintaining strong DSP participation and ensuring that any additional compliance obligations are proportionate to the reliability benefits they deliver.

Accordingly, Enel X recommends that EPWA:

- Confirm that the alternative morning window options continue to deliver sufficient reliability benefits relative to the original 6:00am to 10:00am concept;
- Maintain the current Reserve Capacity Test requirement where possible;
- If additional assurance of dual-window capability is required, consider strengthened contractual requirements requiring customers to be available for both morning and evening dispatch events within the same day;
- If two tests within the same day are retained, introduce advance notification arrangements that better reflect real-world DSP operations;
- Carefully assess the risk of reduced DSP participation arising from the proposed 8/12 Reserve Capacity Price treatment for the evening dispatch window;
- Base any division of Reserve Capacity Payments into morning and evening availability windows on the contribution to system security, not the number of hours available; and
- Ensure baseline and performance assessment methodologies appropriately accommodate multiple events occurring within the same day.

With respect to Proposal 3, Enel X supports the proposed mechanism allowing DSP participants to reduce Capacity Credits and recover a corresponding portion of Reserve Capacity Security where an Associated Load permanently ceases operation. We consider this to be a sensible and equitable reform that better aligns Reserve Capacity obligations with actual system demand.

However, Enel X does not consider that the rationale for the proposal is limited to loads greater than 5 MW. We therefore recommend that the provision be extended to all Associated Loads that satisfy the notification and evidentiary requirements, regardless of load size, including loads

below 5 MW that are required to provide TNI information when applying for Certified Reserve Capacity (CRC) under the existing market framework.

Enel X appreciates the opportunity to provide feedback and looks forward to continuing engagement with EPWA, AEMO and other market participants as these reforms progress.

## Proposal 2 - Amend DSP availability obligations

Enel X supports the objective of better aligning DSP availability obligations with evolving system reliability needs. We recognise that system stress events may increasingly occur outside the traditional afternoon and evening peak periods and that the DSP framework should evolve where necessary to ensure reliability services remain available when required.

However, we consider that certain elements of Proposal 2 may inadvertently reduce DSP participation and, consequently, reduce the quantity of flexible demand available to support system reliability. In particular, we encourage EPWA and AEMO to further consider the potential impacts associated with:

- Increased Reserve Capacity Testing requirements;
- Reduced economic value associated with single-window participation;
- The effectiveness of the proposed morning availability windows relative to the original proposal; and
- Baseline and performance assessment arrangements where multiple events occur on the same day.

## Support for Alignment of Availability Obligations with System Needs

Enel X generally supports the concept of introducing separate morning and evening DSP availability windows where modelling demonstrates that these periods align with emerging reliability requirements.

Our original support for the proposal was based on the proposed 6:00am to 10:00am morning window combined with a 2:00pm to 10:00pm evening window. This arrangement captured the full range of forecast morning reliability risks while maintaining strong alignment between DSP availability obligations and anticipated system needs. We encourage EPWA to explicitly assess whether the reliability outcomes achieved by either alternative remain materially consistent with those originally expected from the 6:00am to 10:00am design.

We acknowledge that AEMO has identified implementation constraints associated with a 6:00am to 10:00am window because such an arrangement spans two market days. We therefore understand why alternative morning windows are now being considered.

However, both the 4:00am to 8:00am and 8:00am to 12:00pm options represent compromises relative to the original proposal. Before introducing significant operational and compliance changes for DSP participants, EPWA should be satisfied that either alternative continues to deliver reliability benefits that justify the associated implementation costs and participant burden.

Enel X does not have a strong view as to whether the 4:00am to 8:00am or 8:00am to 12:00pm window better aligns with system reliability needs and considers EPWA and AEMO best placed to make this assessment. However, from a participant perspective, the 4:00am to 8:00am option is likely to present greater operational challenges. Many participating facilities do not maintain overnight operational staffing and may need to implement additional call-out procedures, staffing arrangements and site processes to facilitate participation in this window. Consequently, Enel X expects the 4:00am to 8:00am option would reduce potential DSP participation and available capacity relative to the 8:00am to 12:00pm option.

## Reserve Capacity Testing Requirements

The area of greatest concern for Enel X is the proposed testing framework associated with the introduction of separate morning and evening availability windows.

The consultation paper proposes testing arrangements that would effectively require DSPs to demonstrate capability in both windows on the same day. While this may be viewed as two 30-minute periods of a single test rather than two separate 30-minute tests, our customers are likely to experience and manage these obligations as two distinct testing events.

From a customer perspective, each test requires a separate disruption to site activities that includes risks to production, staffing arrangements and communications between site personnel and DSP operators. As a result, the practical burden associated with testing is likely to increase substantially even if the total testing duration remains unchanged.

Enel X does not believe that increased testing requirements should automatically accompany the introduction of additional availability windows. The current DSP framework does not test every potential dispatch circumstance that may arise during a Capacity Year, yet it has successfully demonstrated customer capability and supported reliable DSP participation.

Accordingly, our preferred approach would be for AEMO to maintain the existing Reserve Capacity Test requirements. Under this approach, AEMO could conduct testing within either the morning or evening availability window and assess capability across the broader DSP fleet through a representative mix of testing outcomes.

## Strengthening Assurance Through Contractual Obligations

If EPWA and AEMO determine that the current reserve capacity testing schedule is insufficient to demonstrate a DSP's ability to respond in both the morning and evening availability windows, Enel X encourages consideration of strengthened contractual requirements rather than additional testing obligations.

Under this approach, DSP aggregators would be required to maintain contractual provisions with participating customers that explicitly require customers to be capable of responding to up to two dispatch events within a single day, including one event within the morning availability window and one event within the evening availability window.

Enel X considers that such an approach may provide AEMO with an appropriate level of assurance regarding customer capability while avoiding the increased operational burden associated with additional Reserve Capacity Tests.

This approach would recognise that the primary objective is not to demonstrate capability under every possible dispatch scenario, but rather to ensure that DSP providers have access to customer portfolios capable of meeting their Reserve Capacity obligations when called upon.

The current DSP framework already relies heavily on contractual arrangements between aggregators and participating customers to ensure availability and compliance. In Enel X's view, strengthened contractual obligations should be considered before introducing additional testing requirements, as they directly address the underlying concern regarding customer availability while minimising additional compliance costs and operational disruption.

### Alternative Approach if Two Tests Are Retained

If EPWA and AEMO conclude that testing capability in both windows is necessary, Enel X strongly encourages the adoption of enhanced notification arrangements.

Importantly, actual DSP dispatch events rarely occur in an environment where customers receive only two hours of practical warning. In practice, DSP providers actively monitor weather forecasts, demand forecasts and market conditions several days in advance of anticipated system stress events. This allows customers to prepare operationally, engage key personnel and maximise the quality of their response.

By contrast, the current Reserve Capacity Test framework provides little opportunity to replicate these real-world operating conditions.

We therefore recommend that, if two tests on the same day are retained, AEMO provide advance notice of a prospective testing period, for example through notification of a testing window several days before the actual test is conducted.

This approach would:

- Better replicate real-world DSP operations;
- Reduce participant burden;
- Improve response quality;
- Maintain confidence in test outcomes; and
- Still allow AEMO to verify morning and evening capability on the same day if required.

Enel X considers this a practical compromise that preserves the policy intent of the proposal while limiting adverse impacts on customer participation.

### Single Window Participation and Reduced Capacity Payments

Enel X is concerned that the proposed 8/12 Reserve Capacity Price treatment for participants electing to provide only evening availability may discourage participation in the DSP framework.

While we understand the rationale for reducing payments to reflect a reduced availability obligation, it is important to consider the behavioural response of DSP participants.

Many customers compare DSP participation against alternative mechanisms, including the management of Individual Reserve Capacity Requirements (IRCR). Where the economic value of DSP participation is materially reduced, customers may determine that remaining within the DSP framework is no longer commercially attractive.

This creates a risk that some customers may move from DSP participation to IRCR-based strategies.

Such an outcome may reduce the volume of flexible demand available to support the market and may ultimately work against the objective of increasing reliability services available during potential morning and Winter system stress events, as resources responding for IRCR would not voluntarily participate in these windows.

Before finalising the proposed payment structure, Enel X encourages EPWA to assess:

- The likelihood of DSP attrition;
- The potential migration of customers towards IRCR-based approaches; and
- The net impact on system reliability.

### Allocation of Reserve Capacity Payments

Enel X is concerned that the proposed allocation of Reserve Capacity Payments between the morning and evening availability windows is based solely on the duration of the obligation rather than its contribution to system reliability.

The Consultation Paper proposes that participants electing to provide availability only in the evening window should receive 8/12 of the Reserve Capacity Price. This approach implicitly values the morning availability obligation at 4/12 of the total Reserve Capacity Price and assumes that the value of DSP capacity is directly proportional to the number of hours contained within each availability window.

Enel X does not consider this assumption to be supported by the underlying rationale for the reform. The proposed introduction of separate availability windows recognises that reliability risks are concentrated within particular periods of the day and that those periods do not contribute equally to security of supply outcomes.

In the technical analysis presented in the consultation paper *Figure 11: Frequency of spare capacity falling below 750MW by hour of the day (January 2021 - October 2025)* is used to support the need for morning DSP availability. However, this data shows that the morning window of 6 AM-10 AM contains only ~5% of low spare capacity intervals (where spare capacity falls below 750 MW), compared to the 2 PM – 10 PM window which contains ~95% of such intervals. The consultation paper further clarifies that the spare capacity calculation in the morning intervals does not include ESR capacity as this period falls outside of the ESROIs. This suggests that the relative contribution of the morning window to security of supply may be overstated by the spare-capacity analysis alone.

Accordingly, the value assigned to each availability window should reflect its contribution to system reliability rather than being determined solely by its duration. Based on this data, Enel X

does not consider it reasonable for the morning window, which contains less than 5% of the identified risk, to effectively be assigned one-third of the value available to DSP capacity.

More concerningly, the existing proposal creates incentives that are misaligned with the policy objective of the reform. Under the existing proposal, the evening peak is not sufficiently compensated compared to the likelihood of being required to respond to a DSP event.

EPWA has suggested in Proposal 2c that a DSP may associate different loads within its portfolio to the morning and evening obligation windows. While Enel X believes that the restriction of each DSP facility to the small geographical region of a single TNI practically prohibits this, it does provide a useful example as to the issues that arise with the proposed allocation of Reserve Capacity Payments.

Under Proposal 2c, customers that can only support a single DSP event per day will be incentivised to select the option that provides the highest payment relative to the likelihood of dispatch, rather than the option that provides the greatest reliability benefit to the market. A participant available in the evening during approximately 95% of observed low spare-capacity intervals would receive only 67% of the available Reserve Capacity Payment. Conversely, the remaining 33% of the payment is attributed to a window containing less than 5% of observed low spare-capacity intervals. This risks distorting participation decisions and reducing the quantity of capacity available during periods of greatest system need.

If differentiated Reserve Capacity Payments are to be applied between the morning and evening windows, Enel X considers that those weightings should be derived from the relative reliability contribution of each window, rather than allocated in direct proportion to the number of obligation hours. Enel X encourages EPWA to publish the supporting analysis used to determine any proposed payment weighting.

## **Baseline and Performance Assessment Considerations**

If separate morning and evening availability windows are introduced, it is important that baseline methodologies appropriately recognise the operational realities faced by participating customers.

Many customers may require extended recovery periods following a response event. In some cases, operational changes made in response to a morning event may still be influencing site demand during a subsequent evening event.

Enel X encourages EPWA and AEMO to ensure that baseline and performance assessment arrangements appropriately account for these circumstances so that customers are not disadvantaged where the effects of a genuine response remain observable across both windows.

We would welcome continued engagement on the design of baseline methodologies as these reforms are developed.

## Proposal 3 - Return of DSP Reserve Capacity Security if a large load ceases:

Enel X supports Proposal 3 and agrees that the current framework may produce unintended outcomes where a DSP participant continues to carry Reserve Capacity obligations associated with a load that has permanently ceased operations.

We support the proposed amendment that would allow a DSP participant to have its Capacity Credits reduced and a corresponding portion of its Reserve Capacity Security returned where an Associated Load permanently ceases operations, subject to appropriate evidentiary and notification requirements.

As noted in the Consultation Paper, a load that permanently exits the SWIS reduces underlying demand and therefore reduces the Reserve Capacity Requirement that would otherwise be needed to supply that load. Continuing to impose Reserve Capacity obligations on a DSP participant in these circumstances may discourage participation in the Reserve Capacity Mechanism and expose participants to risks that are outside their control.

While Enel X supports the intent of the proposal, we do not consider there to be a sufficient rationale for limiting the mechanism to Associated Loads greater than 5 MW.

It is our understanding that the proposed threshold is intended to align with the operation of clause 4.10.1B of the ESM Rules, under which smaller loads are generally not certified against a specific Transmission Node Identifier (TNI). We agree that facilities granted capacity credits under 4.10.1B should not be able to reduce their capacity obligations due to permanent load reduction as the loads that will be associated with these facilities are not known at the time of CRC assignment. However, we believe this approach overlooks circumstances in which Associated Loads below 5 MW are nevertheless required to provide TNI information.

Under clause 4.15.16A of the ESM Rules and paragraph 12.1.8 of the WEM Procedure for the Network Access Quantity Model, Associated Loads located within potentially constrained TNIs identified by AEMO are required to provide TNI information as part of the Certified Reserve Capacity application process. In these circumstances, the location of the load remains relevant to capacity allocation outcomes irrespective of whether the individual load exceeds 5 MW.

More fundamentally, Enel X does not consider load size to be a meaningful distinction when assessing the underlying rationale for the proposal.

The Consultation Paper states:

“A large load that ceases operations permanently or for an extended period (e.g. entering care and maintenance) will reduce unscheduled operational demand, as it no longer consumes electricity from the SWIS.”

Enel X agrees with this principle. However, the logic remains equally valid when the qualifier "large" is removed. Any load that permanently ceases operation reduces electricity demand relative to the assumptions that underpinned the original allocation of Capacity Credits. The same considerations of fairness, participant risk, and consistency with actual system demand therefore apply regardless of whether the load is above or below the proposed 5 MW threshold.



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Accordingly, Enel X recommends that EPWA extend the proposed provision to all Associated Loads that satisfy the notification and evidentiary requirements, rather than limiting the mechanism to loads greater than 5 MW.

This would ensure that participants are treated consistently, better reflect actual changes in system demand, and avoid creating arbitrary distinctions between facilities that experience the same underlying circumstances.

Scott Cornish

A handwritten signature in black ink, appearing to read "Scott Cornish".

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