



Energy Policy WA
Department of Energy and Economic Diversification
Level 1, 66 St Georges Terrace, Perth
Via email: energymarkets@deed.wa.gov.au

RE: Capability Class 2 Technologies Review: Consultation Paper

Dear Jai and Dora,

Neoen Australia welcomes the opportunity to respond to Energy Policy WA's Capability Class 2 Technologies Review Consultation Paper.

Neoen has invested over \$9 billion in Australia to date, and currently operates 22 assets across the country, including 2.7 GW / 9.1 GWh of battery storage. In Western Australia we have invested in three Electric Storage Resource projects. Given this significant investment in battery storage, we have a strong interest in ensuring this Review results in a framework that is proportionate, transparent, and investable, and does not undermine the reliability or value of that investment. Neoen shares EPWA's assessment that infrequent but high-consequence events, where storage enters an ESROI with insufficient charge, represent a genuine system security risk, and that the current incentive framework alone may be insufficient to address it. We do not consider the proposed mechanism, an administered State of Charge mandate backed by a punitive refund, is the only or the best way to address that risk. This submission is organised around four principles, which we ask EPWA to apply across the Review outcomes and Proposals raised in the Consultation, with our detailed position on each set out below.

1. Maximise the reliability and market value of batteries.

Price should follow high demand periods. Any compliance mechanism, and any incentive attached to charging or discharging, should track genuine periods of high demand and system stress, not an administratively fixed window such as the current ESROI.

2. Minimise implementation cost, operational ambiguity, and asymmetric commercial risk

Consistent with other submitters to this Review, we propose that any LOR-SOC event be reported after the fact, and that a joint AEMO-ERA mechanism review such events, so Market Participants are not left to reconcile inconsistent expectations on their own.

3. Ensure obligations are proportionate and transparent

These measures need to align with STEM submissions, and we consider the ESROI should be moved to align with peak LOR timing rather than remaining fixed to the calendar.

4. Investment certainty

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Any new compliance obligation, and any change to how existing obligations are enforced, should be applied prospectively, rather than being unwound or tightened retrospectively in response to a single event.

Key Recommendations:

- **Move the ESROI.** There should be an obligation on AEMO to ensure that when there is an LOR-SOC event that the ESROI was aligned with forecast peak demand. This will ensure that the impact on price is minimal.
- **Timing alignment.** Align ESROI timing with STEM auction gate closure, publish a consolidated timing map showing how STEM gate closure, gas nomination deadlines, diesel-switching decisions, and LOR-SOC declarations interact with a seven-day rolling LOR-SOC publication. This will ensure that market participants can adjust their Scheduling day nominations to respond to the new requirements.
- **Transparent information at declaration.** Participants need transparent information at the time of an LOR-SOC declaration, not only after the fact: the mandated SOC level, applicable facilities, expected ESROI window, forecast conditions relied on, and withdrawal criteria. AEMO should be expected to release in detail information on how it calculates LOR SOC so participants can accurately forecast the levels they can expect on a week ahead basis.
- **Ex-post reporting.** Require AEMO to publish a post-mortem after each LOR-SOC event: trigger inputs, mandated SOC level, notice and withdrawal timing, and whether the event was avoided as a result. In this reporting AEMO should consider and evaluate the impact on pricing outcomes, including additional cost to consumers flowing from increased prices in the lead-up to the ESROI.

Neoen thanks EPWA for the opportunity to contribute to this Review and would welcome the opportunity to discuss any of the above points further. Please do not hesitate to contact us should further information be required.

Chapter 2 – Items assessed, no amendments proposed*1. Do stakeholders disagree with any of the review outcomes outlined above? If yes, why?*

We support retaining the Linearly Derating Method but disagree with retaining the current approach to setting ESROIs. The ESROI should always be linked to actual peak demand, not a fixed calendar window; the Review's own modelling (Figure 7) shows spring mornings will require ESR dispatch by 2030-31. We believe that if the ESROI aligns with peak demand it is less likely to lead to suboptimal market pricing and therefore more efficient market outcomes for WA consumers.

Chapter 3 – Proposal 1 (energy-delivered Reserve Capacity Test)*1. Do stakeholders support amending the ESM Rules to account for ESR ramping during Reserve Capacity Tests? If not, why?*

We support this proposal in full. Measuring total energy delivered rather than average MW aligns the test with physical reality, avoids forced oversizing that would raise BRCP-linked capacity costs, and improves reliability and price outcomes without weakening the test's purpose.

Chapter 6 – Proposal 4a / 4b (LOR-SOC mandate)*1. Do stakeholders support the proposals to introduce a state of charge mandate through the introduction of new LRC – LOR-SOC? If not, why?**2. Which option – Option 1 or Option 2, do stakeholders support to assist ESR operators in complying with a LOR-SOC obligation?*

We do not support the proposed mandate as drafted. Our primary position is that the Review's focus should shift toward strengthening price signals through LOR periods, allowing batteries to respond to genuine scarcity commercially rather than through an administered SOC compliance framework. If a mandate proceeds regardless, we ask that the ESROI itself be permitted to move to align with actual or peak LOR timing.

Any civil penalty or refund liability under the SOC mandate should be automatically withdrawn where an actual LOR2 or LOR3 condition occurs before the start of the ESROI. A battery that discharges to respond to a genuine LOR2/3 event ahead of its ESROI is performing exactly the system security function this mandate is meant to protect, and should not be penalised for the resulting shortfall against a SOC target set for a later window. This should apply automatically, not as a discretionary exemption, so operators can respond to a real event without weighing compliance risk in the moment.

On the compliance mechanism, we support Option 2 as the preferred pathway. Relying on participant offer construction rather than direct AEMO Constraint Equations avoids hard-coding what should remain a rare and flexible operational tool, and is consistent with our broader position that price signals, not administered constraints, should drive BESS behaviour through LOR periods.

Chapter 7 – Proposal 5 (refund mechanism)

1. Do stakeholders support the proposals to introduce an addition to the current refund mechanism to apply only when a LOR-SOC is in effect?

We do not support an automatic doubling of the refund calculation. Stacking a 2x multiplier on top of existing refund exposure and civil penalty risk under Proposal 4a risks overshooting efficient deterrence and raising the capacity risk premium priced into WA battery investment, a cost ultimately borne by consumers; any new or enhanced refund liability should apply prospectively only, with existing Certified Reserve Capacity grandfathered, since every future financier will price in the risk that today's compliance framework can be tightened after the fact if it is not. Consistent with our position on Proposal 4a, any refund liability should be automatically withdrawn where an actual LOR2 or LOR3 condition occurs before the start of the ESROI, and if an enhancement proceeds regardless, it should be capped, exclude AEMO-directed or late-notice non-compliance, and sunset pending review.