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Ben Hiron
Australian Energy Market Commission

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Dear Ben

**RE: Primary frequency response incentive arrangements – Draft determination**

Thank you for the opportunity to provide feedback on the draft determination for the PFR incentive arrangements rule change.

Enel X operates Australia's largest virtual power plant.[1] We work with commercial and industrial energy users to develop demand-side flexibility and offer it into the NEM's energy and ancillary services markets, the RERT mechanism, and to network businesses.

This submission sets out our comments on the draft determination and draft rule. The key points are:

- It is not clear that double-sided causer pays will provide clear or sufficient economic signals for participants to invest to provide the service. Higher levels of participation and stronger frequency performance are more likely to be achieved via a market mechanism that explicitly values and procures PFR services.
- We do not support the proposal to include DRSPs in the double-sided causer pays framework. We recommend that the AEMC consider this question through its review of the WDRM (as the WDRM final determination committed to do), not through this rule change.
- Similarly, we do not support the inclusion of DRSPs and SGAs as participants from whom residual regulating FCAS costs are recovered. We are concerned that this approach will result in residual costs being double counted and double charged to customers that participate under these frameworks, and disincentivise them from offering their demand flexibility to the market.

If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Regards

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[1] Bloomberg NEF, December 2019.

## Reforms to the causer pays process

### Double-sided causer pays

It is not clear that the proposed incentive arrangement will provide clear or sufficient economic signals for participants to invest to provide the service. As the thermal fleet retires and the effectiveness of mandatory PFR wanes, it may be more effective to design markets to explicitly value and procure PFR services than rely on implicit incentives through a voluntary mechanism.

GHD recognises this in its advice and suggests that mandatory PFR and double-sided causer pays may need to be complemented by a more explicit means of service procurement in future. Given the considerable amount of work that would need to be done to implement double-sided causer pays, it may be worth spending the time and effort developing a PFR-FCAS market now so that a clear framework and incentives are in place for when the service will be needed.

Further, as the supply mix becomes more decentralised, mechanisms that enable the broadest range of capable providers to offer PFR-FCAS are likely to see the highest level of participation.

### Incentive payment / charges

Clause 3.15.6A(i) of the draft rule sets out the formula for calculating trading amounts and indicates that each market participant will have a trading amount allocated to it for each trading interval (where metering allows it). The definition of market participant includes DRSPs.

The final rule on the *Wholesale demand response* rule change determined that DRSPs should not be subject to regulation FCAS costs, on the basis that the implementation costs would be high for unclear benefits. In the final determination the AEMC stated that this policy position would be re-assessed at the implementation review of the wholesale demand response mechanism, to be conducted within three years of its commencement. It is more appropriate to consider the question of whether DRSPs should be allocated regulation FCAS costs through the broader review of the WDRM than through this rule change. Arguably it is not within the scope of the PFR rule change either.

Further, the question of whether DRSPs should be required to have SCADA capability is still under consideration, with AEMO due to commence its review of the *Power system data communication standard* by the end of the year. The outcome of this review will be known by the time the AEMC commences its review of the WDRM. So, as above, we recommend that the AEMC consider the question of whether DRSPs should be subject to regulating FCAS costs through its review of the WDRM, not through this rule change.

### Recovery of residual costs

The draft rule proposes to recover the costs of enabled but not used regulation services from all market participants in proportion to the energy consumed or generated by within the trading interval. The term market participant includes DRSPs and SGAs. It is not appropriate to recover residual regulating FCAS costs from these parties, for the reasons set out below.

#### *DRSPs*

DRSPs are registered in relation to loads that already have a market participant (a Market Customer) assigned to the connection point. Both parties use the same NMI and metering for their market activities. Recovering the residual component from DRSPs would mean that customer loads participating in the WDRM would be charged twice for the same impact on the grid – once via the Market Customer and again via the DRSP. This approach is inconsistent with the causer pays principle and will discourage customers from taking up opportunities to offer wholesale demand response.

### *SGAs*

Many SGAs are registered behind-the-meter at child connection points in embedded network configurations where a Market Customer is registered in relation to the parent connection point.[2] The draft rule would appear to apply residual regulating FCAS costs to such SGAs, for example those registered in relation to generating / storage units that are co-located with a commercial or industrial load in an embedded network configuration. As above, our concern is that this approach will result in a double-counting and double-charging of the customer for the same impact on the grid: once via the Market Customer at the parent connection point and again by the SGA at the child connection point. This approach is inconsistent with the causer pays principle and will disincentivise customers from providing behind-the-meter services with generation and, in particular, batteries.

Enel X raised this issue, and some specific examples, in its submission to the draft determination on the energy storage rule change. A broader review of whether and how non-energy fees and charges are applied behind the connection point is needed.

[2] See scenario 5 in AEMO's SGA fact sheet here.