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Lisa Shrimpton
Director
AEMC

Submitted via AEMC website

10 April 2024

Dear Lisa

RE: Unlocking CER benefits through flexible trading – draft determination

Thank you for the opportunity to provide feedback on the *Unlocking CER benefits through flexible trading* draft determination.

Enel X operates Australia's largest dispatchable virtual power plant.¹ We work with commercial and industrial energy users to develop demand-side flexibility and offer it into the National Electricity Market's energy and ancillary services markets, the reliability and emergency reserve trader mechanism, and to network businesses.

This submission sets out our feedback on the directions paper. In summary:

- Overall, Enel X strongly supports the AEMC's draft determination. Large customers will be able to extract greater value from their flexible resources through improved competition for flexibility services. The more that flexible loads, including CER, can be unbundled from traditional retail constructs, the more opportunities there will be for third parties to offer new and innovative approaches that will provide value to both customers and the wider market.
- We continue to hold concerns that primary FRMPs could create barriers to secondary settlement points by preventing customers from establishing them and/or forcing unreasonable terms and conditions in negotiating issues such as passing on network tariffs and switching load between settlement points. We encourage the AEMC to consider including rules to prevent such anti-competitive behaviour.
- While there is value from this rule change, it is unlikely by itself to drive significantly greater levels of demand flexibility. We encourage the AEMC to consider allowing secondary settlement points to be enrolled in the wholesale demand response mechanism (WDRM). Reducing barriers to participate in WDRM is likely to encourage greater demand flexibility into the market.

We look forward to working with the AEMC to finalise the detailed implementation of these new arrangements to ensure that the new framework is fit for purpose and delivers value for customers. If you have any questions or would like to discuss this submission further, please contact me.

Regards

Claire Richards
Head of Reliability Demand Response, ANZ
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¹ Per AEMO registrations

Overview

Overall, Enel X strongly supports the AEMC’s draft determination as it relates to large customers. In particular, we support:

- Large customers being able to establish secondary settlement points on their premise and engage multiple financially responsible market participants (FRMPs) to manage their flexible resources behind the secondary settlement points. This will promote competition in flexible services by allowing third party providers to offer large customers’ flexible resources into wholesale and ancillary services markets. However, as noted in our response to the directions paper, facilitating flexible trading relationships is not the solution to greater demand side participation in the NEM. Rather, removing barriers to participating in the wholesale demand response mechanism (WDRM) is more likely to unlock greater levels of DSP, while also providing AEMO with visibility and control of these resources.
- The relationship between FRMPs being governed by existing regulatory arrangements and contractual arrangements, with no specific requirements for a secondary FRMP to engage with or formally notify the primary FRMP. This lowers barriers to third party providers offering flexibility services, although will not necessarily eliminate them (as discussed further below).
- The AEMC’s sensible and pragmatic approach to the following elements of the framework, which will minimise implementation costs and complexity – essential to incentivising the use of the framework:
 - DNSPs would be responsible for establishing and maintaining secondary NEMs. We agree that DNSPs are well placed to be assigned this responsibility given they are currently required to create NEMs outside of embedded networks.
 - Existing subtractive settlement arrangements will be used so implementation costs are minimised. We agree this is the simplest, least-cost means to separate data flows between the primary and secondary settlement points.
 - Distribution network tariffs would be levied on the primary FRMP. We agree this is the simplest and most sensible approach, and it is consistent with the approach used today for embedded networks.
- Switching of assets across FRMPs is to be managed by contractual arrangements between the customer and the FRMPs. We agree with the AEMC’s assessment that large customers are best placed to manage these arrangements, rather than being governed through the NEM. However, as discussed further below, we have some concerns about the primary FRMP’s ability to simply prohibit the use of secondary settlement points.
- The NEM does not ban the use of embedded networks in the NEM or require existing embedded network arrangements to shift to the new arrangements. We consider the draft framework appears to provide a lower cost and simpler approach than using the embedded network framework and, as such we agree that banning the approach is unnecessary. However, it may be administratively simpler and lower cost for existing customers with embedded networks to remain operating under that framework.

Risk of unreasonable contract terms for customers

Enel X supports the AEMC’s draft decision that would allow a secondary settlement point to be established without the consent of the primary FRMP. This will help reduce barriers to third party providers of flexibility services. However, we hold concerns that primary FRMPs could still prohibit secondary settlement points through anti-competitive customer contracts. As acknowledged by the

AEMC in its consultation paper for this rule change, retailers do not have an incentive to partner with aggregators to facilitate flexibility services.² Similarly, retailers do not have an incentive to facilitate installing a secondary settlement point, even where it is the customer's preference.

While customers could potentially attempt to switch to a retailer that would not block a secondary settlement point, in practice this is a significant barrier to enabling flexibility services because of lock-in contracts and time poor customers. Avoiding this barrier altogether is more likely to allow customers to access the variety of services – and providers – that will allow them to optimise use of their CER. We recommend the AEMC consider including a rule that would prevent such discriminatory behaviour. Not explicitly preventing this behaviour risks developing a framework that in theory allows customers to offer flexibility into markets, but that cannot be used in practice.

In a similar vein, we have some concerns about the customer having to negotiate new contract terms with their retailer/primary FRMP in respect of issues such as:

- Failure of a secondary FRMP
- Switching of loads across the primary and secondary NMI
- Pass through of network costs to the secondary FRMP.

It's not clear that these matters will need to be addressed through a customer's retail contract at all. We are concerned that doing so will increase the complexity and the time/effort required to set up and effectively benefit from having a secondary settlement point and secondary FRMP. Again it may be appropriate to consider including a rule that supports a customer's choice to engage multiple FRMPs, in the event that their retail contract needs to be re-negotiated.

Contents of AEMO's procedures

The AEMC notes that AEMO will be able to address settlement anomalies and gaming issues via its procedures. Any measures to address such concerns need to be appropriately nuanced to avoid impeding legitimate activities that bring value to both customers and the wider market.

For example, we understand that AEMO has concerns about energy settlement anomalies occurring when back-up generation is used while a site is isolated from the grid. While we agree settlement anomalies could occur where isolation is caused by a grid blackout, they do not occur where the embedded network is deliberately isolated from the grid to allow back-up generation or batteries to operate to provide demand response. Any measures to address settlement anomalies from a grid blackout must cater for sites with back-up generation that must operate in parallel to the network or else many sites – including those that operate today – will be unable to provide demand response.

As such, while we agree it is appropriate for AEMO to address these issues in procedures, AEMO must be careful in the way it designs these procedures. We recommend the AEMC provide guidance to AEMO in its final determination to this effect.

Ability of sites with secondary settlement points to participate in the WDRM

The draft rules prevent a secondary settlement point from being enrolled in the wholesale demand response mechanism (WDRM). However, the draft determination does not provide a reason for this policy position. It is not clear why a secondary settlement point should not be able to participate in the WDRM, particularly given that it is possible to enrol a child connection point in the WDRM. Enabling a secondary settlement point to enrol in the WDRM may unlock additional benefits for customers and enable more capacity to provide demand flexibility to the market.

² AEMC, *Unlocking CER benefits through flexible trading – Consultation Paper*, December 2022, p.15.

As discussed in our submission to the consultation paper, facilitating flexible trading relationships is unlikely to be the solution to greater demand side participation (DSP) in the NEM. While it will reduce some regulatory barriers it will not, in itself, drive significantly greater levels of DSP. Removing barriers to participation in the WDRM is more likely to enable greater levels of DSP, while also providing AEMO with visibility and control of these resources. Enel X has developed a list of several ways in which the WDRM could be enhanced, to maximise participation and outcomes for consumers, which we would be happy to discuss with the AEMC further.

Implementation

Enel X supports this rule change being implemented as soon as possible. While we would prefer an implementation timeframe of 12 months, we acknowledge that updates to procedures, guidelines and systems can take some time. Nonetheless, we would not support a proposal to extend the timeframe beyond 18 months.