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Ms Stephanie Jolly
Australian Energy Regulator

Submitted via email: regulatorysandbox@aer.gov.au

16 September 2025

Dear Ms Jolly,

Ausgrid: Community Power Network trial waiver application (AER212772)

Enel X appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER's) consultation regarding Ausgrid's Community Power Network trial waiver application.

As the operator of Australia's largest dispatchable virtual power plant, Enel X is committed to promoting competition in the National Electricity Market (NEM) through better utilisation of demand resources to maximise the value of customers' assets and lower overall costs to customers.

We recognise that demand flexibility will play a crucial role in a successful transition to a net zero grid and work with commercial and industrial (C&I) energy users to best utilise demand-side response. As a service provider to customers, we aggregate flexible demand resources and offer energy, market ancillary services, wholesale demand response, firming capacity, and reserve and emergency trader (RERT) to the NEM. Additionally, we can offer an energy response as non-network solutions to network service providers (NSPs) to address identified network needs and to ensure the least cost solutions for network customers.

Enel X supports the regulatory sandboxing objectives that allow new ideas and innovations to be tested, and benefits identified for customers. It is important that we explore CER and DER integration into the market to ensure customer assets are better utilised, valued and can meet the NEM's needs.

While Enel X considers Ausgrid's application seeks to explore some valuable learnings, it does not support the waiver of National Electricity Rules (NER) clause 6.17.1. Regulatory trial designs need to work within and be consistent with the NEM market design fundamentals, such as the separation of regulated network activities from commercial activities and investment. Ausgrid's trial objectives could be met through partnering without the need for them to own and control a material aggregation of bi-directional units or 'solar' generating systems in the NEM. Additionally, new trials intending to provide a material MW response should be required to participate as a voluntary scheduled resource (VSR) with associated provision of SCADA data to AEMO to avoid distorting the spot market.

Enel X is concerned that, in effect, this trial would see Ausgrid competing with Enel X's offerings to commercial and industrial customers. Enel X will not be able to access the trial network tariffs proposed by Ausgrid that make the trial commercially viable for Ausgrid and its partners.

The Charmhaven trial area includes a solar and battery facility at the Lake Haven Vicinity shopping centre built through a joint venture with Enel X¹. Any extension of this facility would need to compete with Ausgrid's offering supported by the trial's exclusive network tariffs. We are also aware of other proposed battery facilities within the Charmhaven trial area. Competing against Network Service

¹ <https://www.enelx.com/au/en/press-releases/2023/vicinity-centres-and-enel-x-partner-on-battery-storage-projects>

Providers to provide market integrated and orchestrated Distributed Energy Resources (DER) discourages investment by independent aggregators and is not conducive to developing a vibrant market for co-ordinated and dispatchable flexible demand solutions.

The details of the proposed energy market facing function of the trial is disconcertingly vague. Much of the risk to consumers and potential market distortions arise from the incentives and actions of the trading partner.

Simply placing the trading partner at arms-length does not address the reasons for the functional separation principles between market participants and network operators. The proposal does not set out how the Ausgrid plans to align the incentives of the trading partner with the consumers in the trial. There is no discussion of the guard-rails essential to minimise the risk of wealth transfers outside of the programme by the contracting activities of the trading partner.

In the consultation workshops Ausgrid highlighted the potential conflict between network needs and spot market opportunities which raises questions around the validity of the arbitrage and trading benefits estimates. The proposal provides no insight to the prioritisation of network management or spot market earnings, nor does it explicitly set out a framework to address such risks within the objectives of the programme.

Enel X's responses to the AER's consultation questions are in Attachment 1. If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Kind Regards,

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Enel X Australia Pty Ltd

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Attachment: Enel X submission to AER Issues Paper on Ausgrid's Community Power Network trial

Summary of Ausgrid's application

Ausgrid's trial waiver application identifies regulatory impediments that may prevent its Community Power Network trial from being completed. Importantly, it seeks a waiver from National Electricity Rules clause 6.17.1 and the AER's Distribution Ring-fencing Guidelines, and a waiver from NER clause 6.6.5, which sets a materiality threshold on regulatory determination re-opener events where these are beyond the control of the Network Service Provider (NSP). These waivers are requested to allow Ausgrid to establish commercial relationships between distributors and third parties and purchase batteries costing \$84 million (and potentially solar generating systems) in its regulated asset base (RAB) for the trial period.

A waiver would facilitate Ausgrid installing, connecting, owning, operating and controlling the batteries (and potentially solar generating systems) in partnership with a third party who operates the assets and trades the 'spare' capacity from the batteries. Bespoke network tariffs only available to programme participants will be created for the trial. The wholesale market benefits of trading batteries under this trial are proposed to be redistributed to the trial's customers in Botany-Mascot and Charmhaven despite the batteries' costs being funded by all Ausgrid customers.

Summary of Enel X's response

Enel X supports the concept of trials and the innovation that could result from these to benefit customers. Enel X is encouraged by the continuing regulatory policy focus on exploring opportunities to unlock CER and DER integration into the NEM to ensure customer assets are better utilised, valued and meet the NEM's needs.

While Enel X considers Ausgrid's trial seeks to explore some valuable learnings, it does not support the waiver of National Electricity Rules (NER) clause 6.17.1 without further information. Regulatory trial designs need to work within, and be consistent with, the existing NEM market design fundamentals, such as separation of regulated network activities from commercial activities and investment. This does, and will continue to, ensure NSPs do not have incentives to delay access to their networks and investment in network services are prudent and efficient to ensure least cost recovery from customers. Enel X considers that Ausgrid should demonstrate the following:

- The network services being provided meet the NER definition of direct control services and standard control services (SCS) as asserted by Ausgrid.
- The trial is beyond Ausgrid's reasonable control and could not have been foreseen at the time of the distribution determination.
- How the trial is scalable and can be replicated in its current form with most of the trial's cost being funded by all Ausgrid customers. The AER should assess whether if this trial was repeated across all Ausgrid customers would a significant increase in Ausgrid's RAB occur without a corresponding reduction in network costs.

- The trial is not able to be re-designed with a commercial partner owning, operating and controlling the assets whilst prioritising a network service arrangement that meet Ausgrid's trial ambitions.

Enel X's response to the AER's consultation paper questions is summarised as:

- Where new trials are proposed to provide a material MW response in a localised area of the NEM it should be required to participate as a VSR and deliver SCADA data to ensure the orchestrated response is visible to AEMO to avoid further spot market efficiency erosion due to 'dead weight losses' from invisible price responsive resources.
- Regulatory trial designs should work within and be consistent with the NEM market design fundamentals, such as the separation of regulated network activities from commercial activities and investment. While the trial seeks to explore some important learnings, the pursuit of these learnings should not risk reduced network access and potentially competition for NEM services. The existing market design requires monopoly. infrastructure providers to be separated from generation and retail activities, this proposed trial would allow Ausgrid to participate in market services, network services and continue to control network access.
- The NEM's regulatory framework should encourage competition in electricity services by:
 - Clearly identifying the services required and facilitating a commercial response.
 - Continuing to require DNSPs to specialise on network service provision and identifying their network needs or constraints to clearly signal to the market where commercial opportunities exist.
 - Underpinning a DNSP focus on designing and implementing dynamic price signals into their network tariffs to allow commercial parties with the customer relationship to respond, build trust and enhance existing social licence. DNSPs should actively build strong linkages with commercial parties to ensure a clear understanding of the costs and opportunities of network service provision.
- The capital, operational and trading costs and benefits of assets (including for trials) should be placed on the parties that can best manage the risk. Ausgrid's current approach would not be replicable across all Ausgrid customers without material increases to the RAB and network prices.
- Where possible, benefits of a service must be distributed equitably to those paying for the service, for example the benefit of avoided network expenditures should accrue to all those who pay for the network.

Enel X's detailed response to the AER's consultation paper questions (includes questions 1, 2, 3, 4, 5, 8, 10, 11, 14, 19, 20 and 21)

1. Regulatory trial designs need to work within and be consistent with the NEM market design fundamentals, such as the separation of regulated network activities from commercial activities and investment.

PRINCIPLE 1 –Ausgrid's project seeks to explore new relationships between distributors and retailers/third parties. This trial would mark a significant, and in Enel X's view, unnecessary change in the way the market operates. Prior to the AER granting a waiver the impact on competition and market operation should be fully assessed to avoid unintended consequences. The AER should consider the appropriateness of a DNSP having owner and controller roles over batteries that are to provide network services and trade in energy and ancillary services markets.

The AER should consider if allowing this waiver is in customers' long-term interests as the proposal is inconsistent with the current market design, assigns trading risk to end use consumers and could result in access issues for third party connections in the trial area. As an NSP's role is to transport electricity, DNSPs should limit their ownership and control to network assets only and price these through dynamic network tariffs that incentivise supply and demand responses or alternatively seek network support services where tariff signals do not garner sufficient response. It would be valuable for DNSPs to clearly indicate where network services are needed to ensure participants can value this service in its cost stack.

PRINCIPLE 2 – the benefit of CER and DER is maximised when it is commercially and competitively deployed and orchestrated based on market signals (e.g. identifying the need for the services) in the network. Customers will be delivered least cost services by encouraging competition and innovation in the provision of services. Commercial deployment of batteries against a tariff, network service, MAS and wholesale price value stack will result in a more competitive market price and delivery of value to customers with a direct relationship to the asset, ultimately customers receive the value i.e. through lower wholesale prices and lower direct control charges.

Separation of ownership and control of the network and the assets providing services ensures value to customers as it facilitates fair access to those networks and increased competition.

The value to customers of community batteries delivered through the competitive process of a market driven procurement, that provide a network service to a DNSP, whilst facilitating trading operations will generate the lowest cost and highest value to the end use customers without requiring end use customers to assume trading risk.

PRINCIPLE 3 – Enel X supports ownership, operation and control arrangements that encourage competition for service provision and facilitates fair access to networks. Enel X considers the DNSPs have an important role in connection of resources to their networks and clearly identifying the areas of their networks where constraints exist to allow market-led and commercial investment to respond.

The AER should consider whether Ausgrid's proposed approach inappropriately underwrites the asset, in this approach Ausgrid's customers pay for the battery assets (and perhaps the solar generating systems), effectively leaving NSW consumers with the risk. We note that if the trial is

unsuccessful (exit strategy) Ausgrid intend to sell the assets to a commercial entity, noting the risk is borne by customers for the trial period.

2. We also welcome feedback on how this meets our six policy principles. We encourage you to keep these in mind when considering your responses in other sections.

- Ausgrid's proposed approach does not materially improve supply or demand of electricity services. Enel X is concerned that, in effect, this trial would see Ausgrid planning, controlling, operating and granting access to the network while also competing in the connection of assets to provide market services to the NEM.
- Ausgrid's proposal seeks to reduce overall costs and increase benefits to consumers by investing in more solar generating systems and owning batteries that soak up the electricity at peak demand times. Ignoring the proposed market trading benefits, Ausgrid would compensate those who had invested in the solar generating systems by offering higher feed-in tariffs. Enel X supports market mechanisms that provide clear investment signals and network tariffs that incentivise demand and supply to minimise peak and low demand challenges to the network. Without a trial waiver, Ausgrid can provide higher feed-in tariffs and better identify where network services are needed to allow commercial participants to respond.
- Given a material portion of the trial cost is provided by all Ausgrid customers, it is difficult to see how the trial can be expanded without significantly increasing costs to customers through Ausgrid's higher RAB.
- Ausgrid asserts that there will not be any risks to consumers in the trial area. There is an increased risk to Ausgrid's customers in that the costs of connecting and operating assets (including for trials) is not being placed on the party that can best manage the risk.
- Ausgrid's current approach is unlikely to be replicable across all Ausgrid customers without material increases to its RAB and customers' network prices.
- From an allocative efficiency perspective, it is difficult to understand how the NEO is met in a trial that distributes benefits to those who have not paid for the services, for example the benefit of avoided network expenditures should accrue to all those who pay for the network.

3. What potential do you see in the trial to develop new and improved services for consumers?

Enel X sees significant potential in trials seeking to better understand how CER/DER can respond to dispatch and scheduling while providing market and network services. Additionally, Enel X would appreciate NSP trials that provide incentives to commercial participants to respond to time of use signals for peak demand periods, and specifically in areas where further network upgrades could be reduced. DNSPs communicating clearly what services they need, introducing incentives to meet that need, or otherwise procuring for that need, will provide commercial participants the ability to offer its customers better prices.

In terms of this trial, there is no new service being provided to customers. Ausgrid is offering higher feed-in tariffs to investors in installing solar generating systems, which would benefit solar investors. This could be achieved with dynamic network pricing trials and without Ausgrid moving into commercial connection, ownership and control of batteries and solar generating systems.

4. Which elements of the trial do you consider will generate the most valuable learnings?

Given the structure of the trial largely transfers performance / trading risks back to Ausgrid customers (albeit with a floor) and the proposed network tariffs are inconsistent with typical network pricing principles it's difficult to compare programme learnings to competitively based alternatives.

Based on Ausgrid's description the third-party battery operator / trader has little 'skin in the game' and may be incentivised to maximize programme overheads rather than optimise returns for Ausgrid customers. It will be intriguing to see how prioritisation of network management over spot arbitrage will shift if there's a risk that revenue objectives will not be met.

Enel X notes that fees paid to the third-party battery operator / trader are intended to be allocated across all Ausgrid customers rather than those in the trial area further exacerbating the 'wealth transfers' in the programme design.

5. How might this trial contribute to future regulatory reforms or industry practices?

This trial has the potential to change the current market design structures and needs to consider the market and competition impacts.

If the waiver is to be approved, Ausgrid's assets would be providing a material orchestrated response. To be consistent with policy direction, this response should be visible to AEMO and controllable. It should be mandatory for Ausgrid to participate as a VSR and provide SCADA data.

8. What are your overall views on the proposed recovery of costs of this trial?

Ausgrid's trial proposes to provide benefits to a limited number of customers and recover costs from all Ausgrid customers, this is likely to result in a transfer of wealth and not meet the user pays principle. Additionally, if this trial were repeated across all Ausgrid customers a significant increase in Ausgrid's RAB would occur.

10. What other factor/s should be taken into account when considering if the trial is successful?

Enel X recommend the AER including the following in the assessment of trial performance:

- Was the trial reflective of typical commercial arrangements and not impacted by 'split-incentive' behaviours.
- Did the trial improve risk management in the NEM and contribute to hedge market liquidity in the way a market exposed aggregator would.

11. What are your views on how this trial could contribute to the achievement of the National Electricity Objective?

The NEO is a long-term objective. Enel X is concerned that allowing a DNSP to have ownership and control of batteries (and potentially) solar generating systems for commercial purposes does not contribute to the NEO. This trial allows Ausgrid to participate in market services, network services and continue to control network access which is likely to have a negative impact on commercial investment and reasonable access to Ausgrid's network.

14. Noting Ausgrid's commitment that no consumers will be worse off in trial area, what are your views on consumers not having the ability opt out of this trial?

The NEO is a long-term objective. Enel X is concerned that allowing a DNSP to have ownership and control of batteries (and potentially) solar generating systems for commercial purposes does not contribute to the NEO. This trial allows Ausgrid to participate in market services, network services and continue to control network access which is likely to have a negative impact on commercial investment and reasonable access to Ausgrid's network.

19. How could Ausgrid's proposed trial impact the contestable markets in which it seeks to participate? Which markets could be affected and in what ways?

As described earlier, Enel X considers that Ausgrid's proposed trial could negatively impact competition. Where network services are needed, Ausgrid should identify its solution and call for non-network solutions from commercial providers.

The proposed 'local network tariff' to support local peer-peer trading will not be made available to other market participants who seek to create value for flexible demand-side resources in energy and ancillary services markets placing them at a competitive disadvantage to the Ausgrid programme.

Enel X do not believe that Ausgrid can operate the proposed trial without damaging the ability for Enel X to compete in the trial areas. The only evidence of market failure is linked to the absence of a broadly accessible local peer-peer network tariff to support local production and consumption. The

current programme design places too much sub-optimal performance risk with the end-user for moderate improvements in network utilisation.

20. How might the proposed trial support competition in other areas or support the development of new markets or services that would benefit consumers?

As the proposed network tariffs will be 'cost-based' providing access to other aggregators would provide an opportunity for innovation within a commercial setting.

21. What other benefits could be delivered, or learnings contributed, by Ausgrid's proposal to orchestrate CER and DER?

Given the proposed MW of aggregated batteries in specific locations, it is important that Ausgrid participates as a VSR when this mechanism becomes available in mid-2027 and provides SCADA immediately to ensure visibility.