30 April 2025

Dr Kris Funston
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Dear Dr Funston

Draft Shared Asset Guideline – Regulated Stand-alone Power Systems Review

Queensland's Distribution Network Service Providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy), welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft amendments to its Shared Asset Guideline based on the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*.

While we understand that the AER's proposed amendments give effect to the Australian Energy Market Commission's (AEMC's) preferrable rule change, we consider that the scenario example in Section 3.4 of the AER's explanatory note highlights core assumptions made during that rule change process that have since been dispelled by real world experience.[1]

It is our understanding that Ergon Energy, for example, would earn far less revenue from performing the Market SAPS Resource Provider role than indicated in that scenario example, and even when this revenue is added to other unregulated revenue from shared assets, total unregulated revenue will still be far below the one percent materiality threshold set in the original 2013 Shared Asset Guideline.

To illustrate, Ergon Energy's one percent materiality threshold for 2024-25 is $13.5 million.[2] By comparison, Ergon Energy's unregulated revenue earned with shared assets has consistently been well below the materiality threshold.[3]

The value of this materiality threshold in 2024-25 is five times the $2.7 million of generation revenue that Ergon Energy could theoretically receive as a Market SAPS Resource Provider in 2024-25 under the regulated SAPS generation revenue cap provision in the AER's Ring-Fencing Guideline (Electricity Distribution).[4]

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[1] Shared Asset Guidelines SAPS Review - Draft Decision, Table 1.
[2] Based on one percent of the smoothed annual revenue requirement at AER - Stakeholder report - Ergon Energy - 2024–25 Annual Pricing Proposal.xlsxf, Proposal Report tab, as approved by the AER.
[3] Ergon - RIN.02 - Historical Data - January 2024 - public_0.xlsm, Tab 7.4 Shared Assets.
[4] Under Clause 1.4 Definitions of the Ring-fencing Guideline, as a category 1 DNSP, Ergon Energy's regulated SAPS generation revenue cap is 0.2 per cent of its annual revenue requirement for that regulatory year.

To further illustrate how unrealistic the scenario example is, using AEMO's 2024-25 [redacted]rice:[5]

- [redacted]$10 million in regulated SAPS generation revenue for 2024-25 in the explanatory note's Table 1, Ergon Energy would need to have deployed one thousand regulated SAPS with average annual consumptions of about 142 MWh, and have gained further ring-fencing waivers to do so; and
- to reach the $2.7 million regulated SAPS generation revenue cap for 2024-25, Ergon E[redacted]need to have deployed one thousand regulated SAPS with averag[redacted]8 MWh.

Putting this into perspective, pending Queensland opting-in to the regulated SAPS national framework, Ergon Energy has seven trial 'network support' SAPS deployed, which would transition to regulated SAPS once Queensland opts-in. Furthermore, Ergon Energy's experience to date indicates that the opportunity for SAPS is to supply high cost-to-serve customers where the load is under 30MWh per year, with even smaller loads potentially making a regulated SAPS solution more efficient.[6] As a result, the annual regulated SAPS generation revenue Ergon Energy will potentially earn following Queensland opting-in will be measured in only the tens of thousands of dollars per year.

This is before taking into account the costs of providing a generation service, which the AEMC failed to recognise in its regulated SAPS rule change.[7] For settlement, AEMO uses the Austraclear clearing service, provided by the Australian Securities Exchange, to ensure timely and transparent management of payments. Participants intending to operate in any of the energy markets are required to apply to the ASX to register for Austraclear. Admission fees range from $2,150 to $5,400 while annual fees range from $845 to $5,500.[8] There are also further costs related to administration, such as compliance and reporting, and generation metering costs for each regulated SAPS.

In 2013, the AER's rationale for the materiality threshold in the Shared Asset Guideline was to mitigate the risk of undue administrative costs for limited consumer benefits. At that time, the AER also noted when shared asset unregulated revenues are lower than the one per cent threshold, potential consumer benefits are even smaller and could result in consumers paying more for electricity rather than less.[9]

In our view, this rationale still holds true and is particularly relevant to the very minimal regulated SAPS generation revenue that Ergon Energy and other DNSPs would receive. As we have consistently highlighted, DNSPs will nee[redacted]e generation role in regulated SAPS in remote, fringe-of-grid areas because of the high costs of operating in such environments, plus the lack of competition due to the inefficiencies of multiple parties operating and maintaining a simple SAPS. DNSPs are not taking on this generation role to acquire more unregulated revenue.

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[5] AEMO | Stand-alone Power Systems (SAPS) Settlement Price, which specifies a Queensland SAPS Settlement Price for 2024-25 of $70.26/MWh.
[6] For example, the regulated SAPS that have been deployed by Essential Energy, as per the Essential Energy-SAPS-Register.pdf.
[7] Updating the regulatory frameworks for distributor-led stand-alone power system_final report, p 59.
[8] ASX Austraclear schedule of fees (asxonline.com).
[9] AER explanatory statement - shared asset guideline - November 2013.DOCX, p 22 and 25.

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Therefore, we propose the AER define regulated SAPS net positive generation revenue in such a way that it avoids DNSPs and the AER facing administrative costs [redacted]f unregulated revenue. The clear solution would be to treat revenue [redacted]e regulated SAPS generation revenue cap provision in the Ring-Fencing Guideline in the same way as other unregulated revenue beneath the materiality threshold in the Shared Asset Guideline. Alternatively, the costs associated with the DNSP providing the generation service should be factored into the definition and calculation of net positive generation revenue.

We would also [redacted] final decision:

- that there is no true-up when the estimated regulated SAPS net positive generation revenue in the final year of a regulatory control period subsequently proves to be different to the actual revenue in that final year; and
- how the "secondary control step" (where the cost reduction amount is greater than the cap value, the cost reduction amount may be reduced to equal the cap value)[10] would work in the example in the Shared Asset Guideline update's Appendix B and in the Explanatory Statement.

We also note the draft update of the Shared Asset Guideline contains several grammatical errors that the AER should correct in the final version.[11]

In terms of other prospective changes to the Shared Asset Guideline, the AER had flagged it was considering undertaking a review of the Shared Asset Guideline as part of its 2023/24 work program.[12] With the Shared Asset Guideline remaining unchanged for over a decade, and other guidelines being updated to take account of new technologies and associated regulatory changes, we think it appropriate for the AER to conduct a full review as soon as possible.

For example, there would be benefit in the AER providing clarity on long-term arrangements for DNSP battery energy storage systems where capacity is shared with financially responsible market participants. This should be standardised and streamlined, to ensure a consistent and efficient approach to DNSPs' allocation of costs and the sharing of associated unregulated revenue with customers. This would maximise the ability of these batteries to support the broader transformation of the National Electricity Market. Ergon Energy and Energex have flagged this battery-related issue with the AER previously.[13]

Should the AER require additional information or wish to discuss any aspect of this submission, please contact either myself or Andrew Bozin on [redacted]

[10] From Section 3.3 of the Shared Asset Guideline update.
[11] For example, weight(ed) average cost of capital on p 20 of the Shared Asset Guideline update.
[12] Decision - Ring-fencing Class Waiver for Batteries funded under the Community Batteries for Household Solar Program - February 2023_0.pdf, p 13.
[13] 14_EQ_17012023_Redacted.pdf, p 2.

Yours sincerely

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