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EnergyAustralia

Ms Stephanie Jolly Executive General Manager, Consumer, Policy and Markets Division Australian Energy Regulator GPO Box 520 Melbourne VIC 3001

EnergyAustralia Pty Ltd ABN 99 086 014 968

Level 19 Two Melbourne Quarter 697 Collins Street Docklands Victoria 3008

Phone +61 3 8628 1000 Facsimile +61 3 8628 1050

enq@energyaustralia.com.au energyaustralia.com.au

Submitted electronically: <u>AERringfencing@aer.gov.au</u>

Dear Ms Jolly,

CitiPower Powercor United ring-fencing waiver for EV charging infrastructure.

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We are involved in partnerships which seek to accelerate the transition to net zero. In 2023 EnergyAustralia entered an agreement with Tropic Wings, North Queensland's largest tours and charter bus operator, to provide the electrification infrastructure Tropic Wings' multi-depot electric bus charging network, with funding from ARENA.¹ More recently we have installed 12 new EV charging bays at Federation University's two Ballarat campuses, in a partnership involving Federation University, EnergyAustralia, and the Victorian Government's Department of Energy, Environment and Climate Action.² We share the ambition to upscale EV rollouts and decarbonise transport and know this will deliver long-term customer benefits.

We appreciate the opportunity to provide feedback on the CitiPower Powercor and United Energy (CPU) ringfencing waiver application to conduct a trial for electric vehicle charging infrastructure (EVCI). The AER considers it is consulting to assess the potential benefits and risks of granting the waiver, including impacts on competition and consumer benefits. However, we believe that the AER is by proxy consulting on the future direction and structure of the energy market, and it would be prudent to engage the AEMC on issues requiring decisions on market design to account for increased Customer Energy Resources, EV charging, and related related services before pursuing ringfencing waiver requests.

With respect to the ringfencing request, we believe the AER's default position should be to harness competition wherever possible, rather than accepting the unsupported

¹ EnergyAustralia set to deliver a major Queensland EV charging infrastructure project | EnergyAustralia

² The fast track to an electric driving future for regional Victoria | EnergyAustralia

statement that there is a market failure and moving directly to consideration of whether distribution business (DNSP) spend is efficient. The AER's consultation paper outlines that the public and kerbside EV charging market in Australia is nascent but growing steadily and that there has been a 90% increase in high-powered charging stations in the twelve-month period between mid- 2023 and 2024. This kind of investment does not indicate that there is a lack of competitive interest in the installation of EVCI.

To be clear, EnergyAustralia believes there is a limited role for DNSP ownership of charging and other infrastructure that is usually provided by a competitive market in areas where this competition has clearly and demonstrably failed. These are usually in areas with high cost to provision and or serve, and low return on investment. This is not what the current ringfencing proposal aims to provide.

We consider that CPU would better serve the market by making available any data that they may have indicating where the market should direct its investment, and by removing procedural and cost barriers to EVCI installers already active in the market. We would further query whether CPU would pursue charge station ownership (CSO) if it were required to charge itself a network charge commensurate to that which it charges the e-mobility service provider (EMSP), rather than absorb its costs into the regulatory asset base (RAB). EnergyAustralia's views on these issues and the questions raised by the AER in its consultation paper are set out below.

The nature of market insufficiency

EnergyAustralia is not convinced there is a demonstrated market insufficiency in relation to available EVCI. More specifically, we do not believe that the proposal made by CPU would address the at home charging availability barrier to EV uptake they describe. CPU state that the lack of ability to charge at home represents a barrier to consumers choosing to purchase an Electric Vehicle (EV), and that one in four Australian drivers do not have access to off-street parking and therefore lack home charging options.

CPU's proposal is premised on the view that there are coverage gaps for EV chargers where demand for EV chargers is unmet. However, when selecting sites for EVCI installations, the key indicator appears to be identification of where there are EV's registered to addresses with limited access to off-street parking.³ This does not address a barrier to uptake in these areas since consumers have elected to purchase an EV, and therefore off-street parking does not represent a barrier to EV purchase in these locations. This is likely due to the CPU network areas containing competitive EVCI installations that are accessible.

Barriers to entry

Information asymmetry: We do not believe there is information asymmetry in relation to where EVCI installations should go. The method CPU has used to identify where consumers might like EVCI is the same method that the competitive market would use, when seeking to service an existing and growing market. However, there is information asymmetry in relation to which feeders have spare capacity to support an EVCI installation, and which poles are in sufficiently good condition to house one. There is a process for obtaining this information, which is difficult to navigate, and costly. The absence of publicly available hosting capacity data serves to entrench the advantage of DNSPs over competitive third-party providers.

We agree with CPU that locations where gaps exist should be identified in consultation with governments and councils. Equally, we believe DNSPs should provide simple access

³ AER's Consultation paper – CPU ring-fencing waiver for EV charging infrastructure p 4.

to information on where there is excess capacity and poles in suitable condition to address those gaps. This would allow market investors to facilitate discussions with relevant stakeholders to provide competitive EVCI services in a more targeted fashion. It would also align with the co-planning approach taken by Victoria in its commitment to developing a mapping tool to help optimize infrastructure charging investment.⁴

Transaction costs and fees for service: In our attempts to work with DNSPs to establish EVCI, a consistent issue is that the network costs for the provision of EVCI are too high to allow for the creation of a value chain from the E-Mobility service provider (EMSP) to the EV driver. For instance, if an EVCI connection is charged at the same rate as a residential customer connection to the network, this is too high a charge to be able to create a competitive price point for the EV driver. Tariff options which are not designed to reflect EV charging load profiles create additional cost to provide a service. This makes investments uneconomical.

CPU does not provide what it believes the current costs of provision are, or an estimate of its own cost of provision. We are concerned that CPU's unsupported statement it can provide EVCI services cheaper is made on the basis that it will not charge itself a network charge commensurate to that which it would seek to charge existing EMSP's, and intends to absorb it's EVCI related costs into the RAB. If this is the case, it provides CPU with an unfair advantage over the competitive market. Further, we believe that if the AER were to require CPU to charge itself the same network cost it proposes to EVCI providers, CPU would not progress the trial on the grounds that it would be uneconomical.

Understated costs to establish trial

CPU estimate the total investment to be around \$1.2M. CPU's supplementary submission outlining its proposed operating model requires the development of an open charge point interface (OCPI) between the CSO system and the EMSP systems. A total budget of \$1.2M will be insufficient to establish this OCPI, particularly where the proposed operating model is one that interfaces with multiple EMSPs.

CPU (and other DNSPs) have incentive to understate the true cost of their trial to obtain a wider mandate. In considering their ringfencing waiver request without these figures, or even when figures are provided, the AER is exposed to assessing inflated costs as networks have incentive to ask for higher bids in their regulatory proposals. This risk is entirely removed by relying on a competitive market to continue to roll out charging infrastructure.

Potential benefits for customers

CPU has identified range anxiety and the current insufficiency of charging infrastructure to support widespread EV use as key obstacles to achieving the Victorian Zero Emissions Vehicle Roadmap targets. We do not believe this is accurate. The Victorian Zero Emissions roadmap provides a pathway to funding competitive EVCI investment, without the need for the involvement of DNSPs. This pathway appears to be delivering the intended infrastructure at the necessary rate to support the forecast for EV uptake and consumer demand.

With respect to the issue of 'range anxiety', CPU argue that geographical gaps exist in the availability of public EV charging stations, where private-sector investment is limited. They suggest this is due to investment hesitancy due to lower expected returns and higher risks compared to urban centres. They posit that what follows is an infrastructure

shortfall, in which the current market does not adequately meet the growing demand for EV charging infrastructure, leading to insufficient coverage and accessibility for EV users.

An EV can presently comfortably achieve 500km range. Suburban EV customers are most likely able to access at-home charging. Rural customers are also likely to be able to access at-home charging (there is no reason that this access must be 'fast charging', unless an individual customer prefers this). Rural customers admittedly would benefit from increased highway or destination infrastructure but are presently unlikely to run out of range before encountering public EVCI, and this infrastructure is being installed. Current mapping of EV public charging availability would seem not to support CPU's view, noting that investment in EVCI continues and current gaps in EVCI continue to shrink through natural market processes.

CPU notes that rural customers may require upgrades to SWER connections to support at-home fast charging. Under current arrangements a customer could request an upgrade to their service if they believed there was a cost or service benefit in doing so. CPU could consider mechanisms to reduce the cost barrier to these customers achieving a SWER upgrade if it believes this would improve EV uptake for regional customers. In any case, on this basis we would suggest that there is no immediate limitation in accessing EVCI for most customers.

In addition, it appears that CPU intend to keep the estimated \$200k resulting from this trial. If the trial is the result of CPU's concern that there are barriers to installing EVCI and some resulting consumer detriment, we consider a more appropriate approach would be to have offered some pass-through discount to the EV charger users, which would have been material to them. In addition, we understood that the AER intended for such revenues to be captured under the Shared Assets guideline and a portion of the unregulated revenues were to be returned to Standard Control customers. We would like to understand why the management of that unregulated revenue is not addressed.

Barriers to trial efficacy

It has been noted elsewhere that Kerbside EVCI (KEVCI) of the kind CPU proposes to instal comes with non-energy barriers to utility: local government regulations dictate parking rules, including the capacity for ICE vehicles to park in the KEVCI parking bays. This is relevant to the proposed operating model of the trial, which proposes to have multiple EMSPs operating at each KEVCI, and then the EMSP providing locational and availability information to EV drivers. Installing KEVCI with no ability to determine whether the bay is available *and* not currently occupied by an ICE vehicle renders them unreliable for consumers, leading to poor consumer outcomes and a perception that KEVCI is not able to be relied on. This issue is not addressed by CPU's proposal.

Competition impacts for the kerbside EV Charging market

We consider that third-party providers are better placed than DNSPs to deliver EVCI and broader Consumer Energy Resources integration services competitively and innovatively. While there is a role for DNSPs as a facilitator of underpinning infrastructure, DNSP involvement in contestable markets such as EV charging infrastructure or energy storage risks distorting competition and reducing innovation.

Previous assertions that DNSPs can deliver what would otherwise have been competitive services resulted in negative outcomes. The 2015 Auditors report noted that in each analysis since the 2009 audit the estimated costs of the AMI rollout have increased, and

the benefits diminished.⁵ In this case, the delivery of otherwise competitive services resulted in adverse outcomes including a lack of innovation, cost-effectiveness, competition and consumer choice.

We have previously outlined the information asymmetry problems that face the competitive market. This information asymmetry benefits the DNSPs, creating the potential for discrimination against third parties, as barriers to accessing network data impacts third parties' ability to develop viable EVCI and similar projects.

Waiver conditions

Should a waiver be granted, we believe most of the proposed conditions are largely suitable. However, we disagree with proposed waiver condition 1:

The AER proposed a condition on site selection justification, under which CPU must develop and publish a robust method for selecting specific EV charging sites, demonstrating that these sites have not received other market interest and represent genuine market insufficiencies. Fundamentally, we do not believe the AER could practically assess whether CPU's approach was robust.

More broadly, we do not think this is an appropriate condition, as it assumes that CPU can determine where there is a market failing despite information which would allow this determination to be made not being publicly available. CPU (and other DNSPs) can manipulate the market through not providing information that would allow the market to determine where EVCI should be located. CPU (and other DNSPs) should be required to publish all relevant information, such as a statement of opportunities, which would allow the market to respond, prior to any waiver for DNSPs being considered.

In addition, in their submission to the recent Parliamentary Inquiry into the transition to electric vehicles Evie networks outlined that the current structure of traditional business tariffs poses a significant barrier to establishing commercially viable EV charging operations. Unlike typical commercial and industrial usage, the Load Profile of EV charging sites differs significantly, resulting in disproportionate electricity costs when subjected to Demand or Capacity Charges.⁶

The AER has not actively required DNSPs to design tariffs more suited to EV profiles to support EVCI, despite this being a key enabler of the National Energy Objectives of reducing emissions and maximizing economic opportunities of the clean energy transformation. We consider the AER ought to fully engage with the key issue and enabler of DNSP tariff design for EVCI before entertaining ringfencing requests.

We propose additional components (italicized) to proposed waiver condition 2:

2. Access fee adjustments: CPU should lower or remove access fees for EV chargers in the trial areas to ensure a level playing field for third-party providers, *and, be required to publish the fee it charges to its trial for that same service to ensure transparency*, and a level playing field for third party providers. *Any fee that is charged to a third party must not exceed that fee.*

⁵ Victorian Auditor-General's Report Realising the Benefits of Smart Meters, 2015, p x

⁶ EVIE NETWORKS SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON CLIMATE CHANGE, ENERGY,

ENVIRONMENT AND WATER INQUIRY INTO THE TRANSITION TO ELECTRIC VEHICLES, p 3

Additionally, the conditions ought to include that the AER must audit CPU's practices against any granted waiver and associated conditions, the frequency at which these audits will be undertaken, and any mechanism for penalties for non-compliance.

We do not believe there is a market insufficiency in the installation EVCI, and that there is no evidence presented by CPU to establish this. We consider that CPU (and other DNSPs) would better serve the market by making available any data that they may have indicating where the market should direct its investment, and by removing procedural and cost barriers to EVCI installers already active in the market. We observe that the AER has many levers at its disposal to facilitate change, and that it would be preferable to start with tariff design and information surfacing than with ringfencing waivers that would undermine a steadily developing competitive market.

If you would like to discuss this submission, please contact me on

Regards

Courtney Markham

Regulatory Affairs Lead