



31 January 2022

Mark McLeish
Director, Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
GPO Box 520
Melbourne Victoria 3001

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Via email: regulatorysandbox@aer.gov.au

Dear Mark

Regulatory Sandboxing Issues Paper

AusNet and Mondo appreciate the opportunity to provide a submission to the AER's regulatory sandboxing issues paper.

AusNet is a major energy network business that owns and operates regulated electricity transmission and electricity and gas distribution assets located in Victoria. Its subsidiary Mondo Power Pty Ltd (Mondo) provides a variety of contestable transmission and distribution services.

The issues paper sets out the new sandboxing process in a regulatory sandboxing trial projects guideline that will be finalised to coincide with the introduction of yet to be released rule changes establishing a trial rule change process.

The electricity industry is going through a period of significant transition to a renewable future and sandboxing will facilitate that change through enabling learning-by-doing. Regulatory sandboxes would enable the testing of new innovative market arrangements and inform the future design of regulatory frameworks and assess whether potential reforms represent real value to customers. Therefore, we support the introduction of regulatory sandboxing processes.

AusNet and Mondo recommend that the trial waiver process should be efficient and prioritise projects that have the potential to provide the greatest customer benefits in activating renewable technologies. In the transition to a renewable future, sandboxing will play an important role in understanding better ways to use decentralised energy. Community partnerships and local engagement should also be an important factor in determining those projects given priority, to showcase stories of successful adaption by energy regulation to the public.

We appreciate that the issues paper recognises the need for sandboxing processes to be unnecessarily burdensome or overly cumbersome, and we agree that the trial waiver process should not be onerous. It is vital that the potential benefits of this reform are not eroded by restrictive approach in the guideline to grant waivers and onerous reporting obligations. The requirements in the guideline should therefore be simple and broadly based on assessing trial projects against the National Energy Objective. The reporting framework could leverage ARENA's grant reporting processes as a guide, including the degree to which confidential information is required for effective reporting.

While activating distributed energy resource is likely a fruitful area for sandboxing to occur, sandboxing arrangements may also be applied to renewable gas and hydrogen trials, in conjunction with the Essential Service Commission (Victoria) as it relates to the Victorian Gas Distribution System Code. It could also be applied to transmission projects. For example, a hybrid generator and battery with contracted local customers, as a means recognising the value of less lost energy associated with generators having the vast majority of their output consumed

locally. The guideline should reflect the potential application of sandboxing across the different sectors.

The issues paper seeks information on the key issues associated with sandboxes (such as knowledge sharing, confidential information and consumer protections) and asks questions in respect to three components of the regulatory sandboxing guideline. Our response to these questions is included in Appendix A.

If you have any queries on our submission, please do not hesitate to contact Justin Betlehem on [REDACTED] or via email [REDACTED]

Yours sincerely

[REDACTED]

Charlotte Eddy
General Manager Regulatory Strategy and Policy

Appendix A: Response to questions asked in the issues paper

AusNet/Mondo feedback	
DELIVERING THE REGULATORY SANDBOX	
<p>1. Trial waivers</p> <p>What energy rules have stakeholders encountered that have acted as a barrier to implementing an innovative technology or business model?</p> <p>What technologies or business models are most likely to benefit from a trial waiver?</p>	<p>In our experience potential areas of the energy rules which could be explored through regulatory sandboxing include:</p> <ul style="list-style-type: none"> - Changes to market settlement processes - Bespoke loss factor calculations for generators and batteries with a high proportion of locally consumed electricity - DNSPs and TNSPs deploying energy storage solutions in a way that is technology agnostic and partnering with behind the meter solution providers - Gas network service providers (or pipeline owners) producing natural gas equivalents, such as hydrogen, or engaging in joint marketing with the hydrogen producer to facilitate network decarbonisation. The need for this to be subject to sandboxing will depend on the form of forthcoming related rule and law changes.
<p>2. Prioritising enquiries and waivers</p> <p>What factors should the AER take into account if there is strong demand for the sandboxing services requiring enquiries and applications for waivers to be prioritised?</p>	<p>We recommend that the trial waiver process give priority those projects that have the potential to provide the greatest customer benefit in activating renewable technologies and have the potential for broad application across the National Electricity Market (NEM). Projects with extensive customer engagement plans or partnered with local community organisations should also be prioritised.</p>
<p>3. Confidential information</p> <p>What issues does the AER need to consider in our approach to collecting, handling, and sharing confidential information when providing innovators with feedback on their enquiries and assessing trial waiver applications?</p>	<p>We appreciate that the issues paper recognises the need to protect commercially sensitive information. Ultimately, sandboxing will only be a success if trials are transparent and if participants trust the process will protect commercially sensitive information.</p> <p>In our experience of working with the AER, we consider that the AER has strong processes for identifying and protecting confidential sensitive information and expect the same processes to</p>

AusNet/Mondo feedback	
	<p>apply to regulatory sandboxing.</p> <p>We recommend these controls and protocols are adopted by the AEMC, AEMO and the ESC . Additionally, the transfer of confidential sensitive information between the AER, AEMC, AEMO and ESC should be kept to a minimum.</p>
THE INNOVATION ENQUIRY SERVICE	
<p>4. Proposed Innovation Enquiry Service: what's in and out of scope</p> <p>What information should the AER capture and publish about the use of the sandboxing website?</p>	<p>We agree with the scope outlined in the issues paper. Additionally, we suggest that the scope of "informal steers on options available" does not include advice for parties other than the applicant as it is desirable to avoid applicants misinterpreting informal advice as a direction from the AER that applies to another party.</p> <p>We suggest the AER could publish the volume of enquiries, wait times and feedback survey scores associated with the Innovation Enquiry Service applications.</p>
TRIAL WAIVERS AND THE TRIAL PROJECTS GUIDELINES	
<p>5. Timeline</p> <p>What factors should the AER consider in determining a timeline in which we will assess trial waiver applications?</p>	<p>We consider that it is more important to properly manage expectations than providing an indicative timeline process applications for trial waivers within 6 months. 6 months may be a long time for some trial projects and may result in some projects redirecting their resources to projects that do not require a sandbox.</p> <p>A suggested way to better manage expectations is to includes publishing the list of application being progressed and including a forecast determination date for each application being progressed.</p>
<p>6. Eligibility requirements</p> <p>Should trial waiver applicants be required to have an exit strategy to qualify for a trial project waiver? Why/why not?</p> <p>What additional eligibility requirements should be included in the Trial Projects Guidelines and that the AER should have regard to in assessing trial waiver applications?</p>	<p>Exit strategies are important where trial customers are using equipment owned, or services provided, by a third party that may be removed.</p>
<p>7. Information requirements</p> <p>Should the form in which applications must be made be set out in the Trial Projects Guidelines? Why/why not?</p> <p>What information should applicants be required to provide in applying for a trial waiver? See Attachment A</p> <p>Should applicants be required to agree to</p>	<p>We agree that the form included in Attachment A of the issues paper represents reasonable information requirements for a trial waiver applicant.</p> <p>We note Appendix A has a question that asks about risks to AEMO's operation of the national electricity system and national electricity market. This should also include potential negative impacts to the operation of regulated network</p>

AusNet/Mondo feedback	
<p>their trial project confidential information being shared with the ESCV, AEMO and the AEMC? Why/why not?</p>	<p>service providers. It is important that networks are not adversely impacted in respect to safety, reliability and system security.</p> <p>Confidential information that needs to be shared with the AER, ESCV, AEMO and the AEMC should be agreed upfront. Parties should not be expected to share highly sensitive financial or contractual information that is not directly relevant to the merits of the potential sandbox.</p>
<p>8. Consultation regarding a proposed waiver</p> <p>Is the AER's proposed timing for consultation on proposed waivers reasonable?</p> <p>What factors should the AER consider in specifying the procedures by which the AER will carry out public consultation in relation to a trial waiver?</p>	<p>We agree with the issues paper in requiring consultation where the sandbox would impact other registered participants or directly impact retail customers not participating in the trial. Network service providers may need to be involved early in the development of the trial to ensure there are no impacts on safety, reliability and system security. Additionally, we agree that 20 business days is a sufficient consultation timeframe to provide comments on a trial waiver application.</p>
<p>9. Consumer protection measures</p> <p>What factors should the AER consider in assessing whether sufficient consumer protection measures are in place?</p>	<p>We consider that explicit informed consent is the gold standard in protections for retail customers. Explicit informed consent should be sufficient consumer protection measures for sandboxes, except 100% renewable gas (e.g. hydrogen) trials where some non-participating customers may prefer to electrify rather than install hydrogen compatible appliances.</p>
<p>10. Duration of a trial</p> <p>What factors should the AER take into account in considering the appropriate duration of a trial?</p>	<p>We consider it likely that most projects seeking the sandboxing would be 2-4 years in duration. Most ARENA projects are accommodated within this timeframe.</p> <p>Trials of five years or more would be normalising the trial arrangements for customers making the process of transitioning customers back to existing rules more difficult.</p> <p>Shorter trials of one year may not be long to run a comprehensive trial or may also be overly disruptive to customers.</p>
<p>11. Reporting obligations and monitoring conduct and outcomes of trial projects</p> <p>What content should trial waiver applicants be required to address as part of their reporting obligations?</p> <p>Are there any issues in relation to reporting that should be included in the Trial Projects Guidelines?</p> <p>Should trial waiver applicants be required to</p>	<p>Reporting and monitoring obligations should be efficient and fit for purpose to make the most of AER and industry resources. Excessive reporting requirements would increase costs to all sandboxing trial participants and limit trials to participants with greater resources.</p> <p>Where possible sandboxing reporting requirements should mirror those used by ARENA, including lessons learnt and performance</p>

AusNet/Mondo feedback	
<p>document the views and experiences of trial participants, AEMO and market participants? Why/why not?</p> <p>Should trial waiver applicants be required to report on compliance with the trial waiver conditions as part of their progress reports? Why/why not?</p> <p>What types of monitoring activities should the AER adopt?</p>	<p>monitoring reporting.</p> <p>Reporting on additional conditions that are not present in ARENA reporting such as the views and experiences of AEMO and market participants would add administrative costs.</p> <p>Further, sandboxing trials may be disruptive in nature and the views of other parties may not ultimately reflect the successful delivery of customer benefits. In reporting of these views, it should be acknowledged that disruptions caused may be resolved by a market wide implementation of the sandboxing arrangement.</p>
<p>12. Extension or variation of a trial waiver</p> <p>What factors should the AER consider in deciding whether to extend a waiver? Do you support extensions of trial waivers being conditional on submitting a rule change request to the AEMC? Why/why not?</p>	<p>We agree with the initial view included in the issues paper that extensions should be largely limited to projects that have submitted a rule change request after having demonstrated customer benefits in the reports.</p>
<p>13. Early termination</p> <p>What reasons for terminating a trial waiver early should be included in the Trial Projects Guidelines? What steps should be included in the termination process?</p>	<p>We agree with the list of reasons in the issues paper.</p>
<p>14. Opting out of trial projects</p> <p>What issues should the AER consider in setting out the process by and grounds upon which a customer may opt out of a trial project?</p>	<p>We agree with the initial view included in the issues paper that customers can choose to opt out of a trial in most cases, however there are some cases where opting out early may result in cost or special conditions.</p> <p>The one hypothetical example of a trial in which opting out would result in cost or special conditions, is a neighbourhood trial of 100% renewable gas. Where the gas network for a group of premises is disconnected from the greater gas network and 100% renewable gas is supplied through the gas pipelines to the premises. consultation identified this issue.</p> <p>In this situation that was also identified in the AEMC's recent hydrogen and renewable gases review, customers opting out cannot reconnect to the natural gas network until the conclusion of the trial when the gas line is reconnected and may have to accept a temporary shift to an alternative energy source (such as electricity) for the remaining trial period.</p>
<p>15. Any other matter</p> <p>Are there any other issues you think the Trial Projects Guidelines should address?</p>	<p>No other issues</p>

AusNet/Mondo feedback

16. Conditions the AER may impose when issuing a trial waiver

What trial waiver conditions do you think the AER should commonly apply to trial waivers?

We agree that trial conditions should be agreed upfront and not varied mid trial with a compelling reason. Adding new or altering trial conditions should occur in only extraordinary conditions and only after the AER and the trial applicant have discussed the issues.