

Friday, 28 January 2022

Mr Mark McLeish
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Australian Energy Regulator
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Email: mark.mcleish@aer.gov.au

Dear Mr McLeish

Issues Paper – Regulatory Sandboxing – trial projects guidelines

Thank you for the opportunity to comment on the AER's regulatory sandboxing Issues Paper (Issues Paper), published on 10 November 2021¹ and contribute to the development of the regulatory sandboxing toolkit. We support regulatory sandboxing to facilitate the trial of innovative services and business models, to promote improved services and outcomes for consumers.

We endorse the Energy Network Association's (ENA) submission, which provides a detailed responses to the questions raised in the AER's Issues Paper. This letters focuses on the following two matters:

Delivering the regulatory sandbox

The electricity industry is going through a period of significant change as it transitions to decarbonisation. AEMO's NEM Engineering Framework Initial Roadmap, finds that by 2025, the NEM could reach up to 100 per cent instantaneous renewables at times.² The rapidly changing energy system will result in new operational challenges including:

- more widespread network congestion
- shortfalls in system strength and inertia
- decreasing minimum demand.

International experience demonstrates sandboxing is vital to promote innovation and development of new technologies to support the transition while maintaining affordability.

¹ AER, [Issues Paper – regulatory sandboxing](#), November 2021.

² AEMO, [NEM Engineering Framework Initial Roadmap](#), December 2021.

We support all the three aspects of the proposed sandboxing toolkit being:

- Innovation enquiry service (IES) – this is a ‘first stop shop’ for proponents to seek informal initial feedback from the AER and other market and regulatory bodies³ about the existing regulatory framework
- Trial waivers – waivers from the current National Electricity Law and Rules (NEL and NER) for trials of new products and services capable of delivering long-term benefits for customers through greater choice and lower costs
- Trial Rule changes – for trials that require a change in the NER.

We consider that trial waivers are particularly important to promote new technologies required to address operational challenges arising from the transition, including fewer synchronous generators, more widespread energy storage, increased solar generation and increased electrification of vehicles and industries leading to structural demand shifts.⁴ For example, battery technology can provide system strength and virtual transmission and power plants and can also support micro-grids.

Trial waivers and trial project guidelines

As noted above, we consider the central feature of the sandboxing toolkit is trial waivers. We welcome early engagement on the development of the AER’s Trial Projects Guidelines as a package with the IES. This will facilitate efficient formal consultation on the Trial Project Guideline once the legislation is enacted.⁵

We endorse the ENA’s submission on the Trial Projects Guidelines, in particular that:

- tiered application process with fewer requirements for less complex and low risk applications would improve efficiency
- annual reporting requirements should be flexible and tailored to the nature and duration of the trial, and
- changes to trial conditions mid-trial should be limited to promote certainty for proponents.

We also encourage the AER to:

- prioritise trial waiver applications focused on addressing existing and emerging operational challenges in the NEM, and
- consider how exit and/or transition strategies can be incorporated into trial waiver applications. These strategies feature internationally⁶ to provide transparency to consumers on the benefits of trials should they be discontinued, extended, or proceed to deployment on a larger scale at the end of the waiver period. In particular, exit and/or transition strategies should address, amongst other things:
 - the basis for deploying successful trials on a larger scale
 - how the benefits arising from the trial are maintained once the trial has concluded, and
 - the treatment of fixed assets at the end of a trial.

³ Including the Australian Energy Market Operator (AEMO), Essential Services Commission of Victoria (ESCV) and the Australian Energy Market Commission (AEMC).

⁴ AEMO, [NEM Engineering Framework Initial Roadmap](#), December 2021.

⁵ [Statutes Amendment \(National Energy Laws\) \(Regulatory Sandboxing\) Bill 2021](#), which is currently before South Australian Parliament.

⁶ Energy Market Authority, Singapore, [Framework for a regulatory sandbox for the energy sector in Singapore – Version 2.0](#), December 2019.

We look forward to working with the AER on the development of its Trial Projects Guidelines. If you would like to discuss any aspect of this letter, please don't hesitate to contact Robert Alcaro, Network Regulatory Manager, at [REDACTED].

Yours sincerely

[REDACTED]

Stephanie McDougall

Head of Regulation