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Dear Mr Gulbenkoglul,

Ausgrid appreciates the opportunity to provide a submission on United Energy's October 2020 ring fencing waiver application (the application). The application is seeking a ring fencing waiver that will allow United Energy to grant a retail partner a right of access to the storage capacity of pole-mounted batteries as part of a trial project. For the reasons outlined in this submission, we support United Energy's trial and recommend that the AER grant United Energy a ring fencing waiver.

There is unprecedented change occurring across the energy sector. Given these changes, networks must evolve to accommodate new technologies, particularly the increasing levels of distributed energy resources (DER) connected to those networks. Innovation and the trial of new technologies are key to this evolution.

A flexible framework that encourages innovation

Innovation and co-designing solutions with our customers are key to evolving the shared distribution network to efficiently meet the changing needs of the system and our customers. Stakeholders have told us that they want a role in driving innovation and the future direction of the distribution network, which we envision will become a shared, open platform, supporting an ecosystem of new technologies and services.

Customers also expect distributors to investigate alternatives to traditional network investment in planning for growth and asset replacement. This means that we need to consider options such as demand management solutions and new technologies such as batteries that provide optionality for addressing current and future network needs. The novel use and integration of these new technologies will enable distribution networks to reduce capital expenditure on traditional poles and wires solutions, thereby placing downward pressure on whole of system costs for customers.

As outlined in the application, United Energy's proposed battery trial has been designed to deliver the greatest benefit to consumers by 'stacking' all the available network and market benefits, offsetting the cost of the battery units, and delivering lower cost outcomes for consumers. Under current ring fencing arrangements, however, the trial cannot proceed, and the network and market benefits cannot be realised.

We therefore consider it to be in customers' long term interests for the trial to proceed and support the granting of a ring fencing waiver.

More broadly, it is important that ring fencing does not impose unnecessary constraints on distributors, especially those that inhibit innovation. We encourage the AER to consider whether current ring fencing and service classification arrangements are flexible enough to allow businesses to innovate and trial new services in collaboration with their customers.

Scope and duration of the waiver application

The application seeks a waiver until 30 June 2026 which is the end of United Energy's next regulatory control period. Given the batteries are expected to have a life span of approximately 10 years, and arrangements with a retail partner may reflect this life span, we support this expiry date, which is the maximum currently permissible under the current distribution ring fencing guideline (the Guideline). As part of the upcoming Guideline review, we encourage the AER to consider whether the Guideline should provide the flexibility to grant a waiver beyond the next regulatory control period, as is currently outlined in clause 5.3.4.

In relation to the scope of the application, United Energy has applied for a waiver of the legal separation obligations under clause 3.1(b) of the Guideline. In our view, United Energy will comply with the legal separation requirements in providing the proposed services, and therefore such a waiver may not be required. Instead, certain of the functional separation requirements in clause 4 of the Guideline need to be considered, and we believe that the AER should consider granting United Energy a waiver from those requirements (subject to United Energy confirming that such a waiver would be necessary).

From our reading of the application, the service that appears to enliven the need for a waiver is the granting to a retail partner of a right to use the capacity of the batteries when not needed for network support. In our view, this 'right of access' service being provided by United Energy is clearly being provided by 'means of, or in connection with, a distribution system'. This is a logical inference to draw, given that the batteries being used to provide the service will form part of the United Energy distribution system. This 'right of access' service is therefore a distribution service which United Energy is permitted to provide under clause 3.1 of the Guideline.

However, because it is a new service, a 'right of access' service has not yet been classified by the AER. For the purposes of the Guideline, this new service is therefore an *other distribution service*, and therefore a *contestable electricity service*.

In future, this new service could be classified as a direct control service, in which case it would not be a contestable service for the purposes of the Guideline. However, until that time, the part of United Energy that is providing the 'right of access' service will need to be treated as a *related electricity service provider* and United Energy will be subject to the functional separation obligations in clause 4 of the Guideline.

For this reason, we submit that the AER should consider providing United Energy with a waiver from the functional separation obligations relating to offices, staff, branding and cross-promotion (clause 4.2 of the Guideline) rather than the legal separation requirements in clause 3.1. This is subject to United Energy being of the view that such a waiver is in practice necessary, as United Energy may already be able to satisfy the functional separation obligations without requiring such a waiver. We also note that, in the event the AER was of the view that United Energy did require a waiver under the legal separation requirements in clause 3.1, this would not change the need to consider whether United Energy requires a waiver from the functional separation obligations.

Ausgrid's community battery trial

In 2019 Ausgrid established a Network Innovation Advisory Committee through which we are collaborating with customer advocates on our innovation program that will help drive the future direction of our network. One of the first projects we are undertaking is a community battery trial, the purpose of which is to answer a range of questions about the technical, social and economic feasibility of community batteries.

In contrast to United Energy's battery trial, phase 1 of Ausgrid's community battery trial will explore the potential of a customer battery storage service. Solar customers near the three community batteries will be invited to 'opt in' to the trial and subscribe to a virtual allocation of the local community battery. One of the key advantages of the model we have chosen to trial is that participating customers retain access to full retail contestability (during the trial and beyond).

We have consulted with the AER during the development of our trial and do not require a waiver for phase 1. In future phases of our trial, however, we intend to contract-out battery capacity to a third party and seek to trial the provision of customer battery storage services to customers, for a fee. As both activities involve Ausgrid providing services that are currently not classified, they would enliven certain obligations under the distribution ring-fencing guideline. At the appropriate time we will seek a ring-fencing waiver to allow us to proceed with these future trial phases.

If you have any queries in relation to our submission, please contact John Skinner at john.skinner@ausgrid.com.au or (02) 9269 4357.

Yours sincerely



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