



AUSTRALIAN  
**ENERGY**  
COUNCIL

RING FENCING REVIEW – AER FORUM  
9 JUNE 2021

# Key proposed amendments to the current guideline:

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The two I will address today are:

1. DNSPs providing generation services to provide electricity to a consumer (or group of consumers), without being physically connected to the national electricity system;
2. The use of batteries to provide contestable services (including DNSPs supplying excess battery capacity to third party providers of contestable services, or using such capacity to provide other contestable services themselves)

## DNSPs providing generation services to provide electricity to a consumer (or group of consumers), without being physically connected to the national electricity system

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Reason 1: Deployment of SAPS by DNSPs in situations where there is likely to be limited third party providers of SAPS generation services.

The test for *likelihood* seems to be:

- A third party provider is not available or willing to offer services,
- The SAPS may be too small to make outsourcing the generation services economical,
- A third party may not be able to offer the ongoing operating and maintenance required to meet NER technical and performance standards.

*In each of these cases the third party provider simply does not find the SAPS economical*

*Available information in the AER decision seems to all come from DNSP's. Only they have knowledge and insight in contestable commercial opportunities associated with their regulated activities.*

*No evidence the market has been genuinely tested.*

## **DNSPs providing generation services to provide electricity to a consumer (or group of consumers), without being physically connected to the national electricity system**

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Reason 2: This will enable consumers to realise the benefits of lower cost and higher reliability supply, while also providing information and the scope for third party providers to enter the market.

- *An obligation on regulated network businesses to provide network performance data and load data to competitors to its related business that will enable decisions to invest in generation or storage as an alternative to distribution capacity is required.*
- *AGL in its submission to this review called for a published statement of opportunities that should set out specific and detailed information to maximise the potential for the most cost competitive solutions.*

## **DNSPs providing generation services to provide electricity to a consumer (or group of consumers), without being physically connected to the national electricity system**

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Reason 3: Our (AER) position is intended to promote efficient deployment of SAPS in the early stages of market development. As SAPS deployment progresses, we will review the exemption framework to consider if it remains appropriate. We consider this outcome will be in the long-term interest of consumers.

- *This approach consolidates existing power in the market in the early stages of market development.*
- *In the circumstances of accounting separation, the regulated networks ring fenced affiliate could in theory provide the service at a discounted price by using part of the benefit available to them to do so. AER has no visibility of RFA activity.*
- *This has the potential to crowd out potentially more efficient service providers from the SAPS market in the short-term, which is not in the long term interests of consumers.*
- *We encourage the AER to monitor their expectation that rural NSW and Queensland will likely be the SAPS deployment locations.*
- *Finally, it is imperative that the regulatory framework requires network businesses to effectively test the market for cost competitive solutions before any waiver is granted.*

## The use of batteries to provide contestable services

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Reason 1: DNSPs are prohibited from providing contestable services with a battery (whether the service consists of the supply of excess capacity to third parties, or the provision of other contestable services themselves with the battery).

- *Concerns remain with regard to where a ring fenced affiliate (or the NSP, as a result of their ring fenced affiliate's actions) can monetise a benefit that another competitor cannot simply as a result of the regulatory framework.*

## The use of batteries to provide contestable services

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Reason 2: However, a DNSP may apply to us (the AER) for a waiver in situations where a DNSP wants to supply excess capacity of a battery to a third party in circumstances where it considers the benefits outweigh the harm.

- *We note the proposal to design a waiver process that is robust and provides additional guidance on the factors the AER may consider when assessing a waiver application in relation to batteries.*
- *Like SAPS, the market for energy storage is in its early stages of development and an incorrect decision by the AER could have serious consequences on long term competition.*
- *Finally, and again, it is imperative that the regulatory framework requires network businesses to effectively test the market for cost competitive solutions before any waiver is granted.*



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