Clean Energy Council submission to the Australian Energy Regulator's Issues Paper:

Review of the application guidelines for the regulatory investment tests

Executive Summary

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the issues paper on the application guidelines for the regulatory investment tests.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 5,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The Regulatory Impact Test – Distribution (RIT-D) is failing to promote the long-term interests of consumers because it is a high threshold, high transaction cost regulatory instrument. What is needed to enable optimal investment in cheaper alternatives to network expenditure is a lower threshold, lower transaction cost instrument.

We would be very happy to discuss these issues in further detail with the Australian Energy Regulator (AER). We look forward to contributing further to this important area for policy development.

How best to engage non-network service providers?

Localised or distributed energy markets have the potential to support optimal, location-specific investments in energy storage to address impending network constraints.

Ergon Energy is trialling this approach in Queensland with its 'Optimal Incremental Pricing' strategy, which enables storage suppliers to bid to address identified network issues. This allows for small incremental costs to be incurred as network issues generally increase incrementally. It helps to insulate all customers against large-scale fixed network costs associated with network augmentation, particularly in the face of uncertain energy forecasts.

Ergon Energy's Optimal Incremental Pricing strategy is a good example of how to improve the RIT-D and engagement with non-network service providers. Its benefits are:

- Lower threshold
- Lower transaction cost
- Information is more useful, more timely and more accessible

Lower threshold

Batteries on the grid and other forms of distributed generation and demand management can be a cost-effective alternative to building new network assets. However, the threshold for the RIT-D process is $5 million, which is sometimes too high for batteries to be considered as an alternative. This limits the opportunities for providers of demand response and network support services to identify where they can provide such value.

The RIT-D threshold should be lowered significantly from the current level of $5 million. It should allow for smaller increments of investment while reducing the administrative burden on distribution businesses.

Lower transaction cost

The administrative burden of the RIT-D reduces its effectiveness for distribution network service providers (DNSPs) and suppliers of distributed energy resources (DER).

Reducing the administrative burden imposed on distribution businesses and proponents while also reducing the RIT-D threshold will promote the long-term interests of consumers.

Ergon Energy's 'Optimal Incremental Pricing' approach could provide a template for reform of the RIT-D. It allows more timely investment in smaller increments without excessive administrative burden. The AER should enable and encourage other distribution businesses to consider the approach pioneered by Ergon Energy.

Better information

Better and timelier information on network constraints would assist with more optimal investment. Making information more accessible and available in GIS format would enable more economic and efficient deployment of demand-side alternatives such as energy storage to network expenditure. Distribution businesses should publish better data on impending network constraints that could be addressed by incremental investments in on-grid energy storage. Figure 1, below, is an example of how it can be done better.

The AER should change the requirements on distribution businesses regarding the Distribution Annual Planning Report to transition from a report-based approach to a GIS-driven portal to enable better market access and usability of data.

Figure 1. GIS format information provided to industry by Ergon Energy