21 December 2020

Arek Gulbenkoglu
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Australian Energy Regulator
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Dear Arek

Issues Paper: Updating the Ring-fencing Guideline for Stand-alone Power Systems and Energy Storage Devices

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) in response to the *Issues Paper: Updating the Ring-fencing Guideline for Stand-alone Power Systems and Energy Storage Devices*.

The attached submission is provided by Energy Queensland, on behalf of its related entities, including:

- Distribution network service providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- Regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd (Yurika), which includes Metering Dynamics Pty Ltd trading as Yurika Metering (Yurika Metering).

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact me or Alena Chrismas on 0429 394 855.

Yours sincerely

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Energy Queensland Submission on the AER's Issues Paper

Updating the Ring-fencing Guideline for Stand-alone Power Systems and Energy Storage Devices

Energy Queensland Limited

21 December 2020

About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd (Yurika), which includes Metering Dynamics Pty Ltd trading as Yurika Metering (Yurika Metering).

Energy Queensland's purpose is to 'safely deliver secure, affordable and sustainable energy solutions with our communities and customers' and is focused on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer experience.

Our distribution businesses, Energex and Ergon Energy Network, cover 1.7 million km^2 and supply 34,000GWh of energy to 2.25 million homes and businesses each year.

Ergon Energy Retail sells electricity to 738,000 customers in regional Queensland.

Energy Queensland also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Yurika Metering, which is a part of Yurika, is a registered Metering Coordinator, Metering Provider, Metering Data Provider and Embedded Network Manager. Yurika is a key pillar to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

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1 Introduction

Energy Queensland welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Updating the Ring-fencing Guidelines for Stand-alone Power Systems and Energy Storage Devices Issues Paper* (the Issues Paper).

This Issues Paper is a merging of two, almost concurrent reviews by the AER as it relates to the Ring-fencing Guideline (the Guideline). The first review, which commenced in August 2019, focused on a general review of the Guideline and the potential to include possible improvements given that it had been over a year since it commenced. Not long after, the AER commenced another consultation in December 2019 which related to the interaction between the Guideline and the Australian Energy Market Commission's (AEMC) proposed regulatory framework for DNSP-led Stand-alone Power Systems (SAPS) framework. The intent of this second consultation was to update the Guideline to better incorporate the SAPS framework and to determine what a waiver process might look like for SAPS.

Energy Queensland has been active in ensuring a positive outcome for customers in Queensland as it relates to the regulatory framework for SAPS and welcomes the AER's review. We are also very supportive of many of the AER's preliminary views as outlined in the Issues Paper.

Energy Queensland has responded to the AER's consultation questions, and additionally, provided some overarching comments. We are available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

2 Specific comments

2.1 Stand-alone Power Systems

Energy Queensland is supportive of the AER's proposed 'common sense' approach to ring-fencing in relation to SAPS, that would allow DNSPs to provide the generation service of a SAPS in certain circumstances, under an exemption framework, rather than an individual waiver application process. We believe that the best way to achieve positive customer outcomes for using SAPS in place of network connections is to enable a solution similar to the successful Western Power program, whereby the SAPS are procured from a competitive market and owned and operated by the DNSP.

Long term ownership of the SAPS by the DNSP ensures that customers will be supported for their energy supply no matter where they are located in Queensland, under all operating conditions, normal and emergency response. Ergon Energy Network has demonstrated experience in managing SAPS in remote and inaccessible areas through their ownership and operation of 33 remote and isolated power systems. Our preference, for the DNSP to own and operate the SAPS, is because, once a SAPS is installed at a customer site, it exhibits natural monopoly characteristics and the energy supply to the customer is entirely dependent on the performance of the SAPS. Further we believe that the DNSP is best placed to ensure the ongoing secure supply of electricity including post extreme weather events.

In order to support this, Energy Queensland prefers a broad-based exemption framework covering the life of the assts. Energy Queensland supports the AER's suggestion that SAPS generation revenue based on AEMO's administered settlement price, up to a cap of 1% of DUOS annual revenue. In our opinion, a broad-based exemption framework will allow DNSPs to implement small-scale SAPS, thereby avoiding the need for additional administrative costs related to a waiver process and ensures certainty to customers in delivery of energy supply. It is key that DNSPs are able to provide cost-efficient alternatives to traditional network investments to customers in remote, low density areas.

2.2 Energy Storage devices

We consider that mechanisms already exist under the current Shared Asset Guidelines, and therefore no waiver would be required for a DNSP to indirectly extract additional value from energy storage, and subsequently pass these benefits to customers. Where there is a concern about the usage of an energy storage device being a direct usage, we assume that this means, the DNSP is providing an "other service" and therefore the DNSP would be required to apply for a waiver.

The AER in its draft explanatory statement, summarised the role of shared assets perfectly in the following words:

"*when a DNSP uses an asset within its regulated asset base to provide services that generate unregulated revenue, a portion of this revenue (above a threshold) must be returned to distribution customers. Because ring-fencing is concerned with services, not assets, shared assets may continue to play a role in the provision of unregulated services*."[1]

Noting, the AER's concerns about the lack of transparency in relation to sharing assets, Energy Queensland's strong preference is to work towards utilising fit-for-purpose mechanisms rather than requiring a DNSP to seek a ring-fencing waiver. In a period of significant energy transformation, it is important to ensure that participants are not excluded from offering innovative solutions to ensure positive customer outcomes. As such, ring-fencing needs to accommodate industry value stacking that energy storage devices deliver to across the energy supply chain. Therefore, where a DNSP installs an energy storage device in a prudent and efficient manner, ring-fencing should allow appropriate additional value stacking such that benefits can be shared with customers.

As both SAPS and energy storage systems are an emerging solution to various challenges given the transition to renewables, it is important not to limit pathways to ensure that the decarbonisation of the electricity supply chain occurs in the most efficient and effective manner. Consistent with the sentiment expressed by the Energy Security Board, ring-fencing should not place constraints on DNSPs to ensure optional outcomes for the market as a whole.[2]

[1] Page 15, *AER Draft Ring-fencing Guideline, Explanatory Statement*, August 2016.
[2] Energy Security Board, *Volume 1: The ESB Health of the NEM Report 2019,* 24 February 2020, page 39.

3 Table of detailed comments

Consultation Paper Feedback Question	Energy Queensland Comment
Issue 1: Stand-alone Power Systems	
1. Do stakeholders agree that in some circumstances an exemption would be preferable to requiring DNSPs to apply for a ring-fencing waiver?	Yes. An exemption framework provides more certainty to customers, DNSPs and the market more generally. It defines circumstances and mitigates the severity of the impact and stress on customers by allowing DNSPs to install a SAPS without having to apply for a ring-fencing waiver thereby being able to deliver SAPS generation services to customers. The exemption should also cover the life of the asset. Waivers on the other hand, are individually applied for, limited in application, process and time period. In fact, the AER in its Explanatory Statement, provided that "waivers are an exceptional measure only" and not "business-as-usual". [3]
2. Are there other types of exemptions we should consider?	Yes. The AER should include an exemption that converts an existing DNSP SAPS trial (as network support) to a permanent SAPS arrangement where the DNSP is satisfied that it is a suitable alternative to a network connection. Also, to be clear, any framework, must allow DNSPs to provide SAPS in the event of a market failure and/or emergency response given energy is an essential service. The exemption categories identified by the AER are appropriate. However, it is important to consider that a one-size fits all approach is not possible for SAPS given many of the different factors in determining whether a SAPS is a cost-efficient alternative. For example, Ergon Energy Network's

[3] Page 6, *AER Draft Ring-fencing Guideline, Explanatory Statement*, August 2016.

existing network support SAPS trials are driven by a combination of factors, including, remoteness, ease of access, network capacity limitations, vegetation management, access track maintenance and asset condition. This is why we support a broad-based exemption framework. Energy Queensland notes the following in relation to the exemption categories outlined by the AER in the Issues Paper:

- Remoteness –The threshold should focus not on the SAPS distance from a population centre, but rather, whether that centre can provide appropriate emergency and fault response and ongoing service and maintenance. In addition, the distance to a major centre may not be the only determining factor as some networks are close to a major town centre but may have difficult connection arrangements, such as through national parks to communications sites.
- Population Density - While population density may be a factor in how many customers are connected to a network, it is not necessarily the primary driver for cost of supply. Some areas of low population density may be served by highly reliable networks with low operational costs, whereas, others may have higher population densities served by network constrained areas.
- Access – Difficult terrain can be defined when access isn't by an all-weather road i.e. the DNSP must create an access track or seek alternative access arrangements, such as, air or sea during wet/storm season.
- Cost - As previously stated, SAPS is a preferred supply option when the cost is lower than that of a traditional network supply. As such, the "low cost", is when the SAPS solution is cheaper than the traditional supply option.
- Type of SAPS and absence of alternatives - The threshold size of a SAPS is not only about kW capacity. Network capacity is determined by a maximum capacity in kW (or kVA), which the network can provide 24/7, 365 days of the year. SAPS capacity is determined by kW and kWh. Maximum demand determines the kW (or kVA) and the load profile determines the amount of storage in the SAPS, that is, what time of day the electricity is consumed and therefore kWh capacity. SAPS are designed to supply the required load, which may not necessarily be the same as the network capacity, as such, a direct comparison may not be necessary.
- Emergency responses and SAPS providers of last resort – While taking ownership of SAPS where the provider has failed may be necessary to ensure positive customer outcomes, Energy Queensland has concerns where the DNSP is required to repair or take ownership of third-party SAPS assets as the DNSP's staff will likely have had no exposure to the third-party SAPS system. As such, it is unlikely that the DNSP's staff will be able to be authorised,

	trained and competent to assist after any major natural disaster events, for example, cyclones, fires and floods. • Efficiency – Energy Queensland considers that the intent behind this exemption category should apply, not where costs are excessively and prohibitively higher, but where the third-party costs are just, 'higher'. This is because a DNSP can install a SAPS instead of a traditional network solution where the costs of providing a SAPS is less. If this intent was applied, it would send the wrong signal to the market and SAPS suppliers. Also, we query how the AER intends for the a DNSP to determine whether the third-party costs are excessively and prohibitively higher than the DNSP's? This appears to be an inefficient and cumbersome process.
3. In regard to the exemptions above, or any others, what is an appropriate threshold?	Energy Queensland agrees with the AER's suggestion that DNSPs could earn revenue from SAPS generation services up to 1% of annual revenue. Alternatively, we would propose a definition that accounts for factors outlined by the AER regarding the benefits to customers of exemptions, for example, a combination of factors including but not limited to, customer density, remoteness, and access.
4. Should exemptions for SAPS be defined in specific detail or are generic exemptions, which would apply more broadly, preferable?	While defined exemption categories are supported, a broad-based approach to exemption categories is preferred. This is because each of the defined categories come with their own set of nuances which may inadvertently exclude sites, thus requiring the DNSP to submit a ring-fencing waiver application. Refer to our comments in response to question 2 above which highlight some of the inefficiencies associated with defined exemption categories. As DNSPs are considering SAPS for their highest cost to serve connections, with these most likely to be in locations with low energy demand and customer density. That is, small load customers on long line lengths, in remote or hard to access places, with high costs to maintain a reliable supply due to, any combination of vegetation management, creating and maintaining access tracks, poor reliability and asset failures. It is important to strike the correct balance between ensuring appropriate levels of ring-fencing compliance, while not imposing excessive and restrictive ring-fencing obligations that define exemptions more specifically rather than generically, especially considering the variety of triggers for SAPS as an alternative to network supply. It is also important to note that the role of DNSPs in the SAPS market. Energy Queensland's distributor, Ergon Energy Network, is trialling three network support SAPS, in very different locations, from coastal to far Western Queensland. Ergon Energy Network has gone to

	the market via a tender process for the design, installation and on-going maintenance for the duration of the trial of the system. Energy Queensland is very conscious of the efficiencies that a competitive market offers and the savings/innovations that ultimately flow through to customers. Therefore, our distributors are collaborating with the market to ensure innovative, reliable and cost-effective solutions are sourced for the benefit of the customers whilst ensuring that our geospatially dispersed crews are able to respond in emergencies providing a positive customer outcome. The AER could as an interim measure adopt a broad-based approach to exemptions based on a threshold for a period with an opportunity to review when the SAPS market is more mature. This would provide an opportunity for DNSPs to support market and industry development while ensuring a continued positive customer experience.
5. How can we be sure that DNSPs using exemptions are complying with the Distribution Guideline?	If a generic exemption framework is adopted by the AER, DNSPs could be required to maintain a public register with relevant information of the SAPS provision which will inform and provide transparency to the market and the AER of the DNSPs compliance with the Guideline. Additional, consideration should be provided as to whether an existing regulatory reporting mechanism, such as the annual RIN process, could accommodate the reporting of DNSP-led SAPS under a proposed broad-based exemption framework.
6. In the above criteria do the exemption thresholds satisfy the Distribution Guideline criteria of benefits outweighing costs?	The decision on whether to deploy a SAPS or not should always be considered through the lens of a cost-benefit analysis. Being enabled to supply the SAPS does not preclude the DNSP from performing this analysis and going to market for the SAPS design and installation and other relevant functions. DNSPs' costs may increase where waivers are sought and where they are unsuccessful, which in turn is likely to result in an increased cost to serve customers which does not align with the intent of a SAPS solution. As such, a general exemption framework places the customer and their experience as the priority.
Issue 2: Storage Devices	
7. What other benefits, harms or risks should we consider?	Minimum demand is an emerging issue impacting distribution, transmission and generation. Growth of DER and low demand, especially during shoulder seasons, is presenting an increased risk to the secure operation of the network. Enabling DNSPs to work with market providers, to use storage to 'soak up' some of this uncontrolled generation can assist in maintaining system security by allowing

	synchronous machines to remain online while the system services market develops, while also increasing the utilisation of DNSP assets and therefore providing benefits to customers. Research indicates that both utility-scale and behind the meter battery systems will be required to maintain system security[4] into the future as synchronous plant retire and a distributed energy future emerges[5], and that regulations should be actively seeking to remove barriers to enable an acceleration of energy storage. It is also noted that a DNSP sourcing a storage system would need to ensure it was appropriately sized, even where the system will not be utilised 100% of the time. To suggest that in such cases a DNSP is not able to allow third parties to use the assets without a waiver, where such use would not prejudice the use of the assets for regulated purposes and, in fact, would deliver customer and market benefits, is unreasonable and contradicts the whole shared asset framework.
8. If NSPs use storage devices to offer services in contestable markets, how can any potential harms be managed?	Energy Queensland considers that the current Guideline, in terms of obligations and measures, mitigates the risks highlighted by the AER. However, we acknowledge the AER's concerns associated with cost allocation as it relates to storage devices. Despite the AER's concerns, we consider that there are already measures in place to address this problem including Cost Allocation Methods (CAM) and through the AER's regulatory information notices. Notwithstanding, these concerns, we welcome working with the AER to provide a suitable solution to provide greater transparency in terms of how the DNSP allocates costs in relation to the sharing of storage assets with third parties and cost allocations proposed by the DNSP. We note that the CAM is outside the scope of this Issues Paper. However, if the CAM were updated to allocate appropriately, DNSPs could then rely on the Shared Asset Guideline and the intent of

[4] https://prod-energycouncil.energy.slicedtech.com.au/sites/prod.energycouncil/files/ITP%20Storage%20Report.pdf

[5] https://arena.gov.au/assets/2020/04/arena-grid-vs-garage.pdf

	clause 3.1(d)(i) which is to allow regulated customers to share in the benefits of using assets that they paid for to also provide other services.
9. How should we weigh these benefits and harms to determine if a waiver should be granted? What are the priorities?	Energy Queensland does not consider that a waiver is required. A waiver is only required if the DNSP is providing an "other service". However, if a waiver is required, the priority should be to encourage the investments in assets that provide energy services which are in the long-term interests of customers.
10. Should we distinguish between direct and indirect uses of storage devices?	Ring-fencing is concerned with the services being provided rather than the assets. Therefore, if the DNSP provides an "other service", a waiver is required. However, if the DNSP is not providing another service, but rather allowing another entity to use assets within its regulated asset base to provide other services, then under clause 3.1(d)(i) this is permitted.
11. Should we clarify the scope of clause 3.1(d)i of the Distribution Guideline?	Energy Queensland does not support amending clause 3.1(d)(i) if the intent is to clarify the uncertainty around the treatment of energy storage devices given its multiple service stream. DNSPs should be entitled to invest in any future assets that they deem appropriate for the provision of distribution services and rely on the shared asset mechanism to ensure that customers share in the benefits of using regulated assets to provide unregulated services.
Issue 3: Improving the Distribution Ring-fencing Guideline	
12. Can improved staff sharing registers provide the transparency of staff sharing that is needed?	Yes. Energy Queensland supports providing more transparency through DNSPs providing more comprehensive information subject to any personal information being excluded. We welcome clarity from the AER on how this may look.
13. Will changing the term 'confidential information' to 'ring-fenced information', make ring-fencing obligations in relation to information sharing clearer?	Yes. The term "confidential information" as referenced in the Guideline can be misleading and some may believe it captures more than what is actually defined in the Guideline. As such, it may be helpful to use the term 'ring-fenced information' so that the defined term is checked prior to considering whether any prohibition on sharing applies.

14. Will reporting all breaches in relation to substantive Distribution Guideline clauses in 10 business days improve the overall timeliness of breach reporting and reduce the administrative burden on DNSPs?	Energy Queensland does not support reporting "all" breaches to the AER in 10 business days as this will increase the administrative burden on DNSPs. DNSPs should be entitled to maintain a methodology for assessing material breaches, which can be shared with the AER. Increasing the time to report a material breach to 10 business days is supported on the basis that this will allow a thorough investigation. Non-material breaches should continue to be reported in the annual report.
15. Will calendar year compliance reporting minimise the administrative burden on DNSPs?	Yes.
16. Are the current Distribution Guideline obligations, in relation to branding and cross promotion, proportional to the potential harms? If so, how might the branding and cross-promotion obligations in the Distribution Guideline be amended to make them more targeted?	No. The administrative cost to comply is significant and far outweighs the potential harm to customers in some circumstances. For example: • A DNSP field worker is in a rural town performing regulated and unregulated services as a customer's premises, they should not have to walk back to the car to change vehicle branding, uniform logos and ID card. This type of activity would appear inefficient in the eyes of customers. • Another example is in relation to corporate documents that form part of a holding company with subsidiaries. These company structures often share policies, standards, work procedures and forms. Energy Queensland's, distributor, Ergon Energy Network has a waiver against the branding obligations that allows Ergon Energy Retail to use the Ergon Energy brand on the basis that it is a non-competing retailer. Ergon Energy Retail is prevented from offering behind-the-meter services. As Energy Queensland considers that the customer is the priority, particularly in the current economic environment, the current waiver conditions are disproportionate to the harm it is trying to prevent. While we support branding obligations remaining in relation to circumstances where there is the potential for promotion or advertisement by the DNSPs, the Guideline must strike the right balance so as not to be disproportionate against the harm that this obligation seeks to mitigate to the detriment of customers. There would be benefit in refining the branding obligations to explicitly confirm the intent such that DNSPs are not being required to comply where there is little to no harm.