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Lodged electronically: AERringfencing@aer.gov.au

Dear Mr Gulbenjoglu



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AER Electricity Ring-Fencing Review

EnergyAustralia is one of Australia's largest energy companies with around 2.5 million electricity and gas accounts across eastern Australia. We also own, operate, and contract an energy generation portfolio across Australia, including coal, gas, battery storage, Demand Response, wind, and solar assets, with control of over 4,500MW of generation capacity.

EnergyAustralia welcomes the opportunity to participate in the AER's ring-fencing review (the issues paper). As a vertically integrated retailer, we appreciate the Electricity Distribution Ring-fencing Guideline (the Guideline) has provided assurance that competition is considered fundamental in achieving efficiencies and cost-reductions for the betterment of consumers. It would therefore appear counter-intuitive that Distribution Network Service Providers (DNSPs), monopolies with near-guaranteed revenue, should be provided access to competitive markets (i.e. the production and sale of energy); however, in limited circumstances such as SAPS, where the outcome will provide the least-cost option for consumers, we support the expansion of the Guideline.

Stand-Alone Power Systems (SAPS)

With the expected regulatory framework¹ that will provide consumer protections via a '*NEM continuation model*' and their expertise with managing network infrastructure, we believe DNSPs present as an obvious preference to operate SAPS. This is based on the efficiencies and associated cost reductions that will be provided to customers through a DNSP's established understanding of consumer protections, and the expertise and resources to install and operate SAPS – in most cases – more cost efficiently than a new entrant.

This may not always be the case, and the AER has appropriately appreciated that improving the application process for a DNSP should not come at the expense of the competitive market providing the service. Therefore, we believe it is important that any consideration of an exemption as outlined in the issues paper, should have the following safeguard applied:

¹ [Final Report - Review of the Regulatory Frameworks for Stand-Alone Power Systems - Priority 1](#)

Any exemption provided to a DNSP has a provision allowing a competitive service entity to request the AER to reassess the exemption, if the competitive service entity can demonstrate they are able to replace or purchase, and operate the SAPS at a reduced overall costs to consumers.

With the introduction of this safeguard, we believe the issues paper's proposed exemption thresholds are acceptable.

Without this – or a similar – safeguard, we believe that most exemption thresholds are suitable, as they cover situations where it is unlikely a competitive service entity would see value in participating. However, we believe the following exemption thresholds, *remoteness, population density, access, and up to a specified cap*, are too broad, not suitable for approval without AER oversight, and should remain as waivers to avoid impeding a competitive service entity providing a preferable alternative.

Energy storage devices

The issues paper outlines a problem that exists within the Guideline and other current rules², that are impeding efforts to ensure competitive and network services are integrated for customer benefit. Aside from the limits the rules impose, a fundamental consideration is how the use of regulated investment to provide competitive market services has the potential to distort competitive markets, resulting in worse outcomes for customers.

The discussion below includes suggestions that sit outside the Guideline; however, we appreciate the AER are able to explore how alternative options could be established if they are deemed as preferable to the issues paper's proposals or current regulations.

EnergyAustralia strongly believes that DNSPs should first and foremost explore and exploit non-network alternatives to address identified network constraints. The provision of non-network services is growing strongly, with market participants already providing hundreds of MWs of network control via demand response or batteries. Improvements in this area could be achieved by requiring DNSPs to ensure the timely and transparent sharing of their network issues, expected infrastructure needs, or the demand curtailment or additional loads required to address the current or forecast constraints.

We believe requiring DNSPs to publish the historical and forecast 12-month's network constraints to competitive service entities (similar to the Distribution Annual Planning Reports but at a more granular and targeted level), would enable non-network alternatives and least-cost solutions to address the network congestion and capacity issues. As an example, the UK Power Networks have invested in an *Active Network Management* system³ to facilitate this on a real-time basis. This requirement is consistent with recommendation 14 of the ESB's Data Strategy⁴, *LV reporting to provide transparency for DER investors and planners*.

² [National Electricity Rules Chapter 6 & 6A](#)

³ [UK Power Networks' Active Network Management system](#)

⁴ [ESB Data Strategy Recommendation 14](#)

Regardless of how the AER elect to pursue reviewing DNSPs use of energy storage devices, there should be a priority focus on the AER's ability to monitor how DNSPs, assess the need for, limit battery size based on the required network service, allocate the costs through their RAB, and operate the batteries for network (or contestable) services.

A further safeguard the AER should consider is providing competitive service entities greater access to information submitted by DNSPs when they are applying for either a SAPS or energy storage device waiver/exemption, as this improved oversight will ensure that competitive service entities are provided the opportunity to consult with the AER if an alternative and preferable alternative is available.

EnergyAustralia supports the following changes proposed within the issues paper:

- strengthening the transparency of staff sharing arrangements between a DNSP and its affiliates - requiring detailed reporting of staff sharing arrangements between the DNSPs and their affiliates.
- removing confusion associated with the term 'confidential information' as defined in the Distribution Guideline - replacing the term 'confidential information' with another term, such as 'ring-fenced information'.
- simplifying and improving the overall timeliness of DNSP breach reporting - require that all breaches (material or not), be reported to the AER within ten business days. Except for annual compliance reporting timeframe breaches and timeframe breaches on reporting another material breach.
- improving the practicality of DNSP annual compliance reporting - require all DNSPs to submit annual compliance reports within four months of the end of the calendar year to which the compliance report relates.

If you would like to discuss this submission, please contact me on 03 8628 1704 or Travis.Worsteling@energyaustralia.com.au.

Regards

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