22 January 2016

Mr Chris Pattas
General Manager- Networks
Australian Energy Regulator
via email: AERInquiry@aer.gov.au

Dear Mr Pattas,

Thank you for the opportunity to comment on the AER's draft decision on Ergon's 2015 Ring Fencing Waiver application. I appreciate the additional information and responses that you have provided to the public. As mentioned in your draft decision, I believe that there may be a place for storage on the grid in an efficient future. However, without proper incentives to stimulate efficient investment in, and use of the technology, there is no potential for efficiency. After reviewing the costs that you have made public, it is clear that this project represents very poor value for customers. The AER is only meant to approve a Ring Fencing Waiver if it believes that it is in the long-term interest of consumers, and I ask that it take a cautious approach.

I can't imagine how one could consider $15.5 million a reasonable cost for these units, which together total just 2MWh of storage and 500kW of capacity (at best), with a 10-year lifespan. Even the "Traditional Upgrades" alternative, priced at $20.1 million, is arguably better value due to the increased security of supply and lifespan of 40 years. There are publicly available battery storage and control solutions available which represent much better value for money. GUSS would cost $7,750 per kWh of storage, or $31,000 per kW of peak capacity. Ignoring time factors such as inflation, the annual cost over the 10-year lifespan works out to $3,100/kW/year. These are outrageous prices, by any measure. Battery storage prices are currently under $1,000 per kWh and falling, less than a seventh of the claimed costs.

United Energy suggests that customers who take up battery storage can provide network services such as voltage control:

> *Network Support The advent of new technology means that small customers may be able to provide network support services back to the network. While this market and the network support services are in their infancy, we see significant potential value for customers and the network. Network support could include injection of energy back into the grid from customers with storage or generation at peak times and voltage control services amongst others.*[1]

This suggests that there is no reason storage needs to be on the network. Despite potential savings from pooling diverse customer loads, it is not efficient if on-network storage costs many times more than storage at customer premises.

[1] United Energy Tariff Structure Statement Proposal, September 2015. p.35.

The estimated annualised GUSS capacity costs ($3,100/kW/year) far exceed Ergon's Long run marginal cost estimates for peak capacity in the area (which are some of the highest, if not the highest costs in the entire NEM). Customer averages for the "West" area are $472/kW/year for "SAC Large" up to $590/kW/year for "TOU Energy Only" customers. The highest LRMC estimate is $722.50/kVA/year for "CAC-22/11 kV Lines"[2]

The result of investment at costs which far exceed average costs is that average costs increase, and therefore customer charges would increase. LRMC also includes upstream capacity, while SWER lines represent just 1 segment of peak capacity infrastructure.

Finally, adding value to assets such as SWER lines, which have the potential to become stranded (obsoleted) by more efficient technology in the near future, is a risky investment. Customers should not be required to fund this investment in order to provide Ergon with guaranteed rewards. $15.5 million would be better spent on long-term solutions such as moving remote communities off of the grid, empowering them to be self-sufficient. If upgrades really are as expensive as Ergon claims, this is the only logical solution.

Thank you again for considering these concerns.

Best regards,

John Herbst

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[2] Ergon Tariff Structure Statement Appendices, November 2015. p.29.