



16 June 2016

Mr Chris Pattas
General Manager – Network Investment and Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Dear Mr Pattas

RE: SUBMISSION TO ENERGEX APPLICATIONS FOR A RING-FENCING WAIVER

Origin Energy (Origin) appreciates the opportunity to provide input to the Australian Energy Regulator's (AER) assessment of two applications submitted by Energex for waivers from section 1(b) of the Electricity Distribution Ring-fencing Guidelines issued by the Queensland Competition Authority (QCA).

These applications follow the granting of a ring-fencing waiver to Energex in March 2016 with respect to a pilot project incorporating both solar photovoltaic (PV) generation and batteries.

In our submission to that assessment, Origin requested the AER to consider the public detriment from any lessening of competition as a public cost. In response, the AER advised that the Queensland Guidelines do not contemplate competitive neutrality and broader market contestability issues such as raised by Origin and other submissions.

We acknowledge the AER's interpretation, however, we believe this highlights shortcomings in the current jurisdictional ring-fencing arrangements in the sense they do not fully contemplate emerging technologies and the ability for these technologies to compete with traditional forms of supply.

Since granting Energex that waiver, the AER has released a preliminary positions paper on ring-fencing. This forms the first step towards the development of a nationally consistent ring-fencing guideline which the AER anticipates will be finalised prior to the end of 2016.

Given the timing of the new guidelines, we consider there is a strong case for the AER to defer the assessment of any contentious waiver applications until these guidelines are in place. We believe Energex's application for the installation of a 150 kilowatt solar photovoltaic system is sufficiently contentious that it should be assessed under the new guidelines.

Origin's comments on the respective applications are set out below.

Battery Energy Storage System

Energex propose to build a mobile educational exhibit incorporating solar PV, Battery Energy Storage System (BESS), a Home Energy Management System and a number of typical home appliances. Energex proposes to use the exhibit for educational purpose at events such as the Brisbane Exhibition, Brisbane Home Show and other high profile events.

The exhibit will be funded through the Demand Management Innovation Allowance (DMIA) and will be owned and operated by Energex Limited.

Origin considers that the activity of an educational exhibit is uncontentious. However, Energex state that the installation may be potentially utilised at its Eagle Farm Distribution Centre on a semi-permanent basis. We believe more information is required regarding the nature of this utilisation before a waiver can be granted.

Installation of Solar PV System

Energex are seeking a waiver for the installation of a 150 kilowatt solar PV system at its Eagle Farm Distribution Centre to be used in conjunction with a commercial sized BESS.

Energex will own and operate the solar PV system which will be funded through non-system capex. The BESS will be funded, owned and operated by Energy Impact Pty Ltd; a separate legal entity. A service level agreement (SLA) will be in place between Energex Limited and Energy Impact Pty Ltd for the ownership and maintenance of the installation as well as access to data. It is proposed that the costs under the SLA will be funded through the DMIA.

It is not clear why the two forms of storage should be housed within separate legal entities; the BESS in Energy Impact Pty Ltd and the solar PV within Energex Ltd. It is also not clear why there are different treatments of cost recovery with the solar costs capitalised and the BESS expensed. In terms of the latter, it is not clear whether this charge is based on capacity availability, discharge or some variant thereof.

Energex propose housing the BESS in a separate legal entity with an arm's length arrangement for the commercial supply to Energex Ltd. This suggests that Energex has already in place a structure for the provision of contestable services envisaged by the QCA's Ring-fencing Guidelines. It is not clear why: 1) the provision of solar PV could not also be made by Energy Impact Pty Ltd on an arm's length commercial arrangement; and 2) given the existence of a separate legal entity that could deliver this service there would be any material incremental administrative costs for Energex to comply with the QCA's Ring-fencing Guidelines.

Furthermore, we consider there needs to be greater transparency regarding the information sharing arrangements that form the SLA. We accept that there may be information within the SLA that is of a commercial in confidence nature, however, stakeholders need to be aware of the types and reasons why information is being exchanged and under what terms; especially as Energy Impact Pty Ltd may be a participant in contestable energy storage services in the future and its engagement with the network business may provide it with levels of operational understanding not available to other market participants.

Energex note that excess solar PV generation will be used to charge the BESS. However, it also notes that during a sunny weekend day there is a potential for up to 100kWh export to TradeCoast's network. In the event there is excess capacity discharged into the TradeCoast network it is not clear what financial benefit will accrue, how and to whom.

We agree that there are benefits to customers through the effective management of solar PV generation in conjunction with commercial sized battery installations and that Energex should have the opportunity to reduce operating costs like any other business. However, Energex is also a regulated monopoly business and must operate in a manner that does not cause damage to contestable and potentially contestable markets.

We believe the arrangements proposed by Energex encroach upon some of the concerns raised by the AER and AEMC regarding the ownership and control of storage behind the meter and the need for this to occur through a ring-fenced entity subject to robust and transparent ring-fencing obligations.

Unlike the educational exhibit, we believe the solar PV application is contentious. The application does not contain sufficient information to allow stakeholders to make informed submissions regarding the treatment and allocation of costs and more importantly understand the information sharing and control arrangements contained in the SLA. Given the level of transparency contained in Energex's application, stakeholders are in a poor position to comment and are consigned to providing qualitative comments.

As noted by the AER, the existing QCA Guidelines are narrow. The AER could apply a limited waiver as it has done with its previous decisions, however, we consider there appears no urgency to have this application assessed immediately as these are long-lived assets and we urge the AER to defer assessment of this application so that it can apply the nationally consistent ring-fencing guideline.

Closing

Origin acknowledges that the AER has an obligation to assess any waiver application subject to the provisions of the QCA's Ring-fencing Guidelines. However, on the basis that revised nationally consistent ring-fencing guidelines are expected to be in place in a matter of months we are strongly of the view that any contentious waiver applications should be deferred until these guidelines are in place.

We believe the solar PV application is sufficiently contentious. The application provides inadequate explanation of the cost recovery models, how external energy discharge is treated and it lacks transparency regarding the information sharing arrangements that form the SLA. Furthermore the application relates to long-lived assets so there appears no urgency to have the application assessed immediately.

For these reasons, we encourage the AER to defer its assessment of Energex's waiver application for the installation of a 150 kilowatt solar PV system at its Eagle Farm Distribution Centre to be used in conjunction with a commercial sized BESS. Should the AER not defer its assessment, then Origin considers that any waiver must lapse upon the commencement of the AER's guidelines.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Robertson'.

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