

Arek Gulbenkoglou
General Manager
AER

18 January 2024

By email: AERresets2024-29@aer.gov.au

Dear Arek,

Ausgrid Revised Proposal – Network Innovation Program (Attachment 5.8)

We welcome the opportunity to provide further input to the AER on Ausgrid’s Revised Proposal for its Network Innovation Program¹ (NIP), following the earlier AER Draft Determination².

As the Australian power system evolves to accommodate more renewable generation, innovation will be crucial to shape that future energy system. This is particularly true for the distribution network where customers are investing in Distributed Energy Resources (DER) (or Customer Energy Resources (CER)) with enthusiasm, necessitating new technical and economic approaches to deliver the services customers with and without DER expect from Ausgrid.

By supporting innovation as a “business as usual” approach, Ausgrid ensure efficient outcomes for today’s and future customers. As the local DNSP, Ausgrid are best placed to understand their own network needs and their customers’ needs. By having specific flexible innovation funding Ausgrid can respond with agility to network and customer needs as problems emerge, building internal capacity and embedding innovation as the first approach versus traditional network-led solutions.

Innovation funding gives Ausgrid the freedom to operate, utilise their own data and allows them to be responsive to exploring new ideas, such as Project Edith, that are at the level of research (low Technology Readiness Levels, TRL) to resolve not only Ausgrid problems, but wider power system issues through sharing experiences and knowledge with the wider industry.

Given the essential need to support network innovation, it is equally important to ensure good governance of innovation projects and approaches. Most large innovation projects require an independent advisory or steering group to oversee project progress and directions.

The Ausgrid Network Innovation Advisory Committee (NIAC) was set up in 2019 and has a priority to protect the interests of existing and future Ausgrid customers. The NIAC facilitates innovations that are in all customers’ interests, ensuring that customers are driving the direction of innovation at Ausgrid. The NIAC provides feedback and drives key disciplines within Ausgrid on evolving priorities, including analysis and certainty around changes to priorities within the NIP.

The independent members of the NIAC have had a critical role in establishing strong governance and accountability around funding decisions and the way in which the results of trials were shared with the industry. Ausgrid has built increasingly robust governance, cost benefit modelling and reporting of customer benefit into innovation activities.

¹ <https://www.aer.gov.au/system/files/2023-12/Ausgrid%20-%20Revised%20proposal%20-%20Att.%205.8%20-%20Network%20innovation%20program%20-%20-%2030%20Nov%202023%20-%20Public.pdf>

² <https://www.aer.gov.au/system/files/2023-10/AER%20-%20Draft%20Decision%20Attachment%205%20-%20Capital%20expenditure%20-%20Ausgrid%20-%202024-29%20Distribution%20revenue%20proposal%20-%20September%202023.pdf>

The NIAC has a sharp focus on customer and community benefits that may or may not take the form of direct costs on bills. In addition, the revised NIP must transcend technical advances and also include novel and effective ways of addressing changing community needs in times of major natural disasters and to support major investment by customers in CER.

The NIAC uses a structured assessment process to ensure that NIP projects are genuinely innovative and that projects target trials of emerging technologies to benefit customers. Through regular monitoring, the NIAC establishes whether a new approach has delivered the expected customer outcomes and can progress to Business as Usual (and out of the NIP) or, in the case where the expected benefits do not evolve, the innovation project is terminated at the earliest opportunity.

Ausgrid's focus on governance of their innovation program through the NIAC leads the way in best practice internationally, with the UK Distribution Network Operators only introducing customer scrutiny to their Ofgem-funded innovation projects in the current (ED2) pricing period³. This is even though the UK has had an extensive and well-funded focus on innovation for nearly 15 years. The independent members of NIAC collectively bring significant experience in energy innovation funding and innovation project oversight. We would welcome any additional guidance that the AER wishes to provide us on our governance and oversight role and are happy to meet with AER staff to explore any issues further.

Ausgrid's NIP for 2024-29 has been strongly supported by customers⁴ the Reset Customer Panel (RCP) and the Voice of the Customer Panel (VoCP) throughout the development of the wider reset proposals. Customers were more willing to invest in a larger NIP and more strongly supportive of the need for innovation for the 2024-29 period⁵ and on the advice of the NIAC, the original NIP proposal was endorsed as being achievable.

Ausgrid customers were clear that innovation was needed to support the integration of CER and resilience to severe weather⁶.

NIAC governance has ensured that Ausgrid have sought external funding, where available, ensuring there is a balance between the need to innovate and customer cost impacts, as well as ensuring that the innovation budget is spent on innovation and not absorbed into wider business operations.

Innovation funding in Australia is competitive and most of the funding opportunities require a co-contribution to project funds, typically matched funding, for instance the ARENA-DEECCW community battery funds and the RACE for 2030 Cooperative Research Centre.

As a result of the complexities of multiple-partner projects around intellectual property and contractual arrangements, delivering tangible business as usual benefits from innovation projects can be delayed or prevent progress.

In the current incentive-based regulatory regime, we recognise that networks are encouraged to invest in innovation where it leads to lower costs of business through higher productivity or more efficient ways of meeting their obligations. Customers will ultimately benefit from this investment through more efficient costs of the utility services. However, in this very dynamic customer energy

³ E.g., <https://www.enwl.co.uk/globalassets/communications/documents/december-sub-board-docs/amended-draft-versions/innovation-business-plan.pdf>, pages 4 and 93

⁴ <https://www.aer.gov.au/system/files/Ausgrid%20-%20Reset%20Customer%20Panel%20-%20Att.%203.5%20-%20Independent%20report%20on%20Ausgrid%27s%202024-29%20revenue%20proposal%20-%2031%20Jan%202023%20-%20Public.pdf>, page 49.

⁵ Ibid, page 48

⁶ Ibid, page 49

environment, networks must embark on designing, testing and trialling technology and practices that do not have an immediate connection to productivity improvements. Customer benefits do not always manifest themselves in a form that can be immediately shared between the utility and the community.

Without specific innovation funding the transformative approaches that are needed to support the evolving distribution system there is a significant risk that DNSPs will fall back on traditional approaches that are no longer fit-for-the-future. There is no specific innovation funding program nor a specific requirement to innovate, under the regulatory framework, as there is in the UK. The current innovation funding options available to networks such as the Demand Management Incentive Scheme and Demand Management Innovation Allowance are no longer sufficient to underpin the scale of innovation required to deliver the clean energy electricity system of the future.

We strongly endorse the revised NIP and the commitment from Ausgrid to support 10 % of funding for both the capex and opex elements of the revised NIP, reducing the funding requirement on customers. We strongly believe that it would be in Ausgrid customers' long term interests for the AER to approve Ausgrid's revised 2024-29 NIP under the continuing oversight of NIAC. As the RCP notes in its reports, Ausgrid's customers have clearly supported this outcome on every occasion they have been asked.

The funding that Ausgrid proposes to allocate to innovation through its NIP and with oversight from the NIAC, ensures that Ausgrid customers will be efficiently connected to an electricity network that is fit-for-the-future clean and decentralised power system.

Yours Sincerely

Jill Cainey; John Fletcher; Peter Youll; Jan Kucic-Riker; Mike Swanston, Louise Benjamin and Mark Grenning
Independent Members of the NIAC

Copy to Murray Chandler
Head of Network Strategy & Future Grid
Ausgrid

Copy to Tony Robinson
Chair RCP