



2 January 2023

Department of
Energy and Climate

Mr Mark Feather
General Manager, Strategic Energy Policy and Energy System Innovation
Australian Energy Regulator
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Dear Mr Feather

Application – Ergon Energy – Ring-fencing waiver: Department of Energy and Climate submission on Ergon Energy’s Microgrid and Isolated Systems Test Facility

The Department of Energy and Climate (DEC) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER), in response to Ergon Energy Corporation Limited’s (Ergon Energy’s) application for a waiver from certain clauses of the *Ring-fencing Guideline (Electricity distribution)*, to enable the Microgrid and Isolated System Test (MIST) Facility to provide competitive services.

DEC recognises that to date the MIST Facility has operated under the ring-fencing waiver the AER granted to Ergon Energy to use its own brand and distribution staff to provide ‘non-distribution’ services in Queensland’s isolated systems.

While compliant with the Ring-fencing Guideline, this arrangement confines where and how the MIST Facility’s considerable suite of capabilities can provide important benefits. The Facility’s state-of-the-art technology allows for the complex testing of solar and batteries, microgrids, standalone power systems, and even hydrogen energy storage. This makes it ideally placed to play a larger role beyond Queensland’s isolated systems, by supporting the transition to a low carbon and low cost energy future across Queensland and even in other jurisdictions.

DEC appreciates the AER has granted a limited interim waiver to Ergon Energy to use the MIST Facility to provide unregulated or contestable services to parties with grant funding for microgrids under the Queensland Government’s Microgrid Pilot Fund (QMPF) and the Australian Government’s Regional and Remote Communities Reliability Fund. The \$10 million two-year QMPF is designed to improve network resilience against extreme weather events through the use of grid-connected microgrids. Enabling QMPF grant recipients to make use of the MIST Facility’s services directly benefits Queensland’s regional and First Nations communities.

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Approving Ergon Energy's waiver from clauses 3.1(b) and 4.2.3 of the Ring-fencing Guideline, so that other entities can use the services of the MIST Facility, would benefit the broader market given the energy transformation currently occurring across Australia. If approved, this would allow for the wider testing of a range of technologies and applications related to solar and battery storage systems, microgrids and stand-alone power systems and other emerging technologies. This is critical to help ensure they can be efficiently integrated into the network or used as off-grid alternatives. This would improve the reliability, support innovation and 'ground truthing' of technology capabilities. In turn this is likely to reduce the cost of supply particularly in regional and remote areas, increase the use of renewable energy and therefore reduce greenhouse gas emissions, and ultimately support the achievement of the recently amended National Electricity Objective.

The AER is seeking specific feedback from interested stakeholders on two aspects of Ergon Energy's proposal—the potential impact on competition of a waiver and the length of time for a waiver.

In terms of competition, DEC understands some facilities across Australia offer various elements of the MIST Facility's capabilities, but there are none with the same extensive suite of capabilities combined with expertise in supplying energy in regional and remote areas. Rather than competing against such facilities, the MIST Facility is well placed to act as a research and development partner. The speed of the energy transformation in Queensland and Australia more generally means that collaboration is required over the next decade to help mature the technological applications to accelerate deployment of regional and remote microgrids and stand-alone power systems. Further, access to the capabilities of the MIST Facility is likely to accelerate the effective integration of customer energy resources and new technologies, a critical priority for governments.

On the length of time for a waiver, DEC supports Ergon Energy's proposal that a full waiver granted by the AER could expire on 30 June 2035. This timeframe would strike a suitable balance between:

- providing certainty for projects that would use the MIST Facility, with DEC noting the intensive work that must occur over the next decade and the critical role of customer energy resources and distribution level technologies to reduce greenhouse gas emissions and meet targets, such as Queensland's renewable energy targets of 70 and 80 per cent by 2032 and 2035; and
- the potential for direct competitors with the same suite of capabilities and expertise as the MIST Facility to emerge in the next decade or so, noting that the MIST Facility required at least three years of conceptualisation, planning, construction and commissioning before it became operational.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact [REDACTED].

Yours sincerely

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David Shankey
**Deputy Director-General
Energy**