28 January 2025

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Danielle Chifley
General Manager, Policy
Australian Energy Regulator
GPO Box 3131
Canberra ACT 3131
Lodged by email: AERringfencing@aer.gov.au

Dear Danielle

Ausgrid's response re Electricity distribution ring-fencing guideline (version 4)

Ausgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) proposed amendments to the *Ring-fencing guideline (electricity distribution)* (**the Guideline**). Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter. Our submission is outlined below with a case study involving Ausgrid's community battery rollout included in **Attachment A**.

Ausgrid supports the proposed amendments to version 3

We note the current scope of the AER's review of version 3 of the guidelines is limited to two proposed amendments, which we broadly support. Both are likely to streamline the administrative processes of the AER and electricity networks by:

- Removing the current maximum term duration for waivers, with appropriate term lengths to be assessed on a case-by-case basis by the AER; and
- Standardising sign-off for annual compliance reports by the most senior executive in an organisation.

Ausgrid welcomes a broader review of the Guideline that supports the long-term interests of the energy system and energy consumers.

Ausgrid recommends that this review:

- Re-consider the need for waivers for distribution network service providers (**DNSPs**) to deploy battery energy storage systems (**BESS**) by making the guideline technology agnostic.
    - BESS is the only technology subject to ring fencing arrangements rather than being subject to AER classification in a distribution determination. A broader review could consider the merits of bringing BESS into alignment with other areas of AER regulation by taking a technology agnostic position.
    - DNSP led storage can play a role in promoting competition by leasing out capacity to market participants which provide services to end customers. We provide a community battery case study in **Attachment A**.
- Ensure greater alignment with the Ring-fencing guideline (electricity transmission) to ensure that DNSPs are not unfairly discriminated against and able to offer generation connections in the same way as transmission network service providers (**TNSPs**);[1,2]

[1] Ausgrid; Submission to AEMC TNSP Ring fencing Rule Change
[2] Ausgrid; Submission to the AER Transmission Ring-fencing,

- Consider the merits of enabling DNSPs to be a platform for pole mounted AC electrical vehicle charging infrastructure (**EVCI**), whereby:

    - DNSPs are limited to providing the EVCI on their own poles; and

    - DNSPs are required to provide open access to retailers to roam their customers onto the chargers so that EV drivers can choose their eMobility Service Provider of choice.

  Exploring these arrangements would improve competition in the market by providing contestability at the connection point and would enable customers to use their eMSP at any network charger.

- Consider how ring-fencing may need to keep pace with innovative regulatory sandbox applications, such as distributed energy zones (**DEZ**) at the edge of grid, such as the DEZ concept Ausgrid is currently preparing, which have the potential to offer substantial benefits to customers.

- Facilitate greater flexibility for DNSPs to undertake repair works at a customer's premises. Our experience shows that the current restrictions are having a negative impact on vulnerable customers. This occurs when field workers attend a location and can switch the power back on within an hour but are required to instruct a customer to call different accredited service providers (**ASP**s) to attend the home and investigate the problem again. This issue also arises around storm events where Ausgrid's restoration work is complete but an individual customer's power may not be restored and they have to call in an ASP, prolonging what may already be an extended period of time without power. We encourage the AER to revisit this issue by quantifying whether the market benefits underpinning the current approach outweigh the customer impacts, particularly with respect to elderly and other vulnerable customers and at times of major climate related events.

More broadly, the requirement for DNSPs to apply for individual and class waivers from the Guideline for new energy services should be reviewed. Innovative technologies are essential for the energy transition and can be optimised to provide essential system services, network services and provide benefits directly to customers. However, the time-consuming and uncertain waiver approval process can prevent DNSPs from quickly deploying these solutions to meet the growing demand.

Ausgrid encourages more flexibility in the Guideline to develop ringfencing arrangements that are fit-for-purpose whilst addressing risks to competition and discriminatory conduct. Ausgrid's next regulatory reset period begins in 2029. By the time we make our initial proposal to the AER in 2027, it would be valuable to have clarity about the role DNSPs will be expected to play in the post-2030 electricity system. This Review provides an ideal opportunity to explore expansion of the remit of DNSPs, facilitating investments in vital technologies while keeping costs to consumers controlled.

Regards,

[redacted]

Tim Jarratt
Group Executive, Market Strategy & Development

Attachment A: Case Studies

The Australian Energy Market Operator (**AEMO**) has highlighted the massive growth in storage capacity needed by 2050 to support variable renewable energy and the growing role of distribution networks in the energy transition.[3] This is consistent with policymakers' and advocates' views that distribution networks should take a greater role in the net zero transition.[4,5] DNSPs possess the capability and expertise to facilitate a faster, accessible and lower cost transition, however current regulatory barriers are limiting DNSPs ability to do so at a pace that will meet the needs of the sector.

Much like stand alone power systems (**SAPS**), significant time and effort were involved to set up the regulatory framework to address perceived risks to competition resulting from DNSPs deploying SAPs, only for no other market participants, including retailers, to deploy them.[6] Whilst the regulatory framework for SAPS is now being reviewed to remove some of those regulatory barriers, these barriers remain too high for Ausgrid to pursue SAPS beyond the existing trials.

The AER's waiver approach allowed DNSPs to install community batteries given the nascent nature of community batteries at the time. With waivers, over 40 DNSP-led community batteries have been deployed in the National Electricity Market (**NEM**), including 13 in Ausgrid's network area. DNSPs are able to leverage existing systems and electrical infrastructure to install these batteries at speed and scale with Ausgrid deploying 7 community batteries within the past 15 months. The AER's waivers enabled DNSPs to lease spare capacity to market participants to operate in the wholesale market and has facilitated retailers offering additional customer benefits in the form of Energy-Storage-as-a-Service (**ESaaS**). ESaaS offers customers in proximity to a community battery to sign up with their participating retailer of choice and access savings through reduced local use of system costs.

Building on the lessons learned from these waivers, a framework to attribute the network-related components of the batteries to the regulatory asset base (**RAB**), with market elements funded through other sources could be found with industry co-operation. This approach preserves existing market structures, with DNSPs tendering for the market components of the battery and addressing cross-subsidisation.

Conversely, while the community-led Yarra Energy Foundation (**YEF**) has demonstrated the desire for community batteries and to easily participate in energy arbitrage, they were plagued with challenges. These were due to their inexperience in installing these assets and integrating them with the market for example resolving issues and outages during holiday periods), lack of automated alarms and monitoring, and the complexity of co-ordinating participation in FCAS markets.

SAPS and third-party community batteries reveal important lessons about the complexity and challenges in integrating these technologies. They also underscore the need to reduce regulatory hurdles with a more technology-agnostic ringfencing guideline. DNSPs are well positioned to overcome the operational and technical challenges with installing and maintaining these assets at lowest cost to consumers. A proper assessment of the competition impacts should be completed so that customers do not miss out on benefits based on the assumption that a market may exist and be able to provide those benefits.

---

[3] AEMO (2024), *2024 Integrated System Plan* (Report)

[4] Marsden Jacobs Associates (2023), *NSW Electricity Supply and Reliability Check Up* Recommendation 29 p15

[5] Energy Networks Australia; *The Time Is Now*; 2024;

[6] AER (2022), *Updating instruments for regulated stand-alone power systems* (Decision)