Dear Arek and Robyn

Thank you for the discussion on Tuesday, 16th March relating to the AER's review of the Distribution Ring-fencing Guideline Review and the treatment of energy storage devices (ESD). Following on from this discussion we have considered the issues raised and collated the following response. Please feel free to circulate the following to others at the AER who attended the meeting.

Value stacking and indirect usage models

Whilst AGL strongly advises that the preferable approach to the deployment of ESD is through market participants who can 'value stack' the network, wholesale and customer value streams to create the best efficiencies and effectiveness of batteries, if networks are allowed to install and operate batteries for non-regulated purposes then we consider stringent controls need to be in place as the concept of value stacking is not directly available to network businesses. Ultimately, this impacts the broader consumer base with higher passed on network costs. The indirect usage model, where distribution networks establish contractual relationships with competitive market providers to realise the wholesale and customer values streams associated with ESD and in turn 'make whole' the network investment, will not necessarily facilitate efficiency in 'value stacking' due to the following:

- The wholesale and customer value streams will not necessarily align with the networks value stream profile and the ESD investment therefore risks underutilisation; and

- Contracting with competitive market providers will entail material transaction costs that could have been avoided through competitive market ownership and operation.

Following the meeting, we have discussed with relevant internal stakeholders what safeguards would need to be established in any granting of waivers to ensure the Ring-fencing Guideline maintains a level playing field so that new participants and business models can fairly compete in delivering cost effective energy solutions.

To ensure this policy outcome, it is imperative that the regulatory framework requires network businesses to effectively <u>test the market</u> for cost competitive solutions before any waiver is granted for the deployment of ESD through networks businesses' regulated asset base (**RAB**). As we elaborated in our submission, we consider that allowing network businesses to offer these solutions through their RAB presents substantial risks of inefficient cross-subsidised investments in infrastructure and negatively impact on the growth of emerging solar battery products and behind-the-meter services, the cost of which would be borne by the broader consumer base.

Establish a market test for the granting of waivers for ESD deployment under the Ring-fencing Guideline

The <u>waiver process</u> should require that network businesses in seeking a waiver from the AER have complied with the following conditions:

1. **Published statement of opportunities** to market with a **12 week consultation** window – network businesses need to publish the opportunity openly to all market participants and the points detailed below set out the required content. This timeframe would enable third party providers sufficient time to prepare cost competitive business proposals in response to these opportunities.
2. **Demonstrate efficiency in the deployment of the ESD, in accordance with the National Electricity Objective (NEO) –** In order to satisfy the NEO, we consider network businesses should be required to demonstrate not only **productive efficiency but also allocative and dynamic efficiencies in the deployment of a ESD before any waiver is granted.**

Part of the challenge of providing competitive non-network solutions is accessing relevant information on available opportunities in particular LV networks. For example, in the context of AGL's Virtual Power Plant (VPP) trial in South Australia, SAPN provided AGL with useful LV network constraint data upon request to assess the suitability of VPP's to provide non-network solutions on their network. The kind of information that AGL relied upon in the trial is not generally available to the market. Most networks today however do not publish constraints on the LV Distribution Network as part of their Distribution Annual Planning Reports. In order to expand the potential for the market to provide cost competitive non-network solutions at the LV network level, the power and energy required to defer augmentation as well as the annual deferment value that can be paid to an aggregator for services within a geographic area need to be transparent and made available to the market.

We consider the **published statement of opportunities** should set out the following information to maximise the potential for the most cost competitive solutions:

- **Solution statement**
  Networks need to provide clear direction and information around what solution is needed to fix a problem. From this information, market participants can determine the most efficient solution to address the problem. This is framed as focusing on the solution required rather than the problem because market participants may determine in providing a solution how they can also provide additional value streams to maximise efficiencies and potential opportunities around that problem. For example, if a X sized battery is needed to address a solar soak issue then this might present different opportunities from a network constraint issue, and further may be solved by the third party providing a blended solution, such as VPP batteries with a FTM battery.

- **Modelling assumptions**
  Networks need to advise the modelling they are basing their solution on to ensure full disclosure and transparency for market participants to respond to. The assumptions used in modelling and the model itself influences outcomes. This needs to be disclosed so any modelling can be like for like or if an alternative model is used, it can be distinguished and why it has been employed.

- **Access: cost of connection**
  Networks need to set out the costs of connection. This is a significant issue as this cost can be substantial for those market participants seeking access, whereas networks don't necessarily account for this cost in solutions financed through the RAB. To ensure a level playing field and transparency, this cost needs to be applied consistently between network and third parties proposals.

- **DUOS charges**
  The Distribution Use of System charges is another cost that may apply to market participants but not to network solutions financed through the RAB. Again, this needs to be applied consistently to ensure a level playing field.

- **Practical location information - easement and access for battery solution**
  It is important that networks consider where a battery is able to be located and the ability for market participants to access this location. For example, if a battery is needed to be connected to the LV circuit and the most suitable place is a sub-station which the network won't provide access to, then there needs to be alternate areas where easements and access can be provided.

Further point to consider:

- **DAPR information** – UE is the best in market in providing information through its DAPR for localised issues, however, DAPR generally does not provide the level of detail required on specific opportunities, such as LV circuits and load requirements, needed by third party providers to realise opportunities. This is why a published solution statement is needed to articulate clearly what networks are seeking in terms of a solution and why.

Feel free to contact us if you have any queries as we are happy to elaborate further.

Kind regards, Sarah

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