

31 January 2020

Sarah Proudfoot
General Manager, Consumers and Markets
Australian Energy Regulator

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Sent via email: Ringfencing@aer.gov.au

Dear Sarah

RE: Electricity transmission ring-fencing – a review of current arrangements

AusNet Transmission Group Pty Ltd (AusNet Services) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) discussion paper on electricity transmission ring-fencing.

While we support Energy Networks Australia's response to the AER's discussion paper, this short response highlights four issues that are particularly relevant for us:

- the unique aspects of the Victorian regulatory framework; and
- ensuring any new transmission ring-fencing arrangements do not:
 - cause harm and hinder transmission network service providers (TNSPs) from owning storage or generation, such as our 30 MWh Battery Energy Storage System (BESS) in Ballarat;¹
 - limit our ability to innovate and be involved in the transformation of the energy sector; and
 - curtail our ability to provide additional services.

We briefly discuss each of these issues below.

The Victorian regulatory framework

In jurisdictions other than Victoria, contestable services relevant to transmission are limited to dedicated connection assets and identified user shared assets (IUSAs). In Victoria, where shared services augmentation is contestable, the Australian Energy Market Operator (AEMO) is the Declared Transmission System Operator and is responsible for the planning of the transmission network and acquiring augmentation services through a contestable process. This functional separation of AusNet Services and AEMO responsibilities is embedded in the National Electricity Rules.

AEMO's contestable process for augmentation involves the issuing of an invitation to tender (ITT) to select suitable service providers. This market-based approach, where we compete against other market participants, requires a significant amount of information to be made available to the market and substantially reduces the scope for us to leverage any market power that we may have.

¹ The BESS is located at AusNet Services' Ballarat Terminal Station. It is a non-regulated asset.

Given these competitive arrangements, prior to any update of the current Victorian transmission ring-fencing arrangements, the AER should:

- identify and communicate the potential harm caused by current Victorian arrangements; and
- explain how it proposes to accommodate the bespoke arrangement that we currently operate within. For example, a carve out of contestable services provided under the Declared Network augmentation provisions of the Rules may be appropriate.

Care must also be taken to ensure that the overall objectives of any proposed reforms are not undermined. For example, inappropriately applied transmission ring-fencing arrangements could:

- restrict competition in Victoria by unduly constraining Network Service Providers' ability to leverage synergies and cost efficiencies to provide cost effective proposals to AEMO;
- impose undue regulatory burdens and requirements that would be better directed at AEMO; and
- place limits on our flexibility and, therefore, our ability to propose innovative solutions to augmentation issues that have the potential to generate the greatest net benefit for customers.

We also note, as outlined in the Council of Australian Government's 'Best Practice Regulation: A guide for Ministerial Councils and National Standard Setting Bodies', that any action undertaken by the AER should be proportional to the issue(s) being addressed. As the current Victorian arrangements for augmentation ensures a well-defined and contestable regime – an outcome consistent with that seen for connections under the Transmission Connection and Planning Arrangements (TCAPA) Rule Change, and which the AER appears to suggest is effective – the need for change to the Victorian transmission ring-fencing arrangements is arguably even more limited relative to the broader case for reform.

To the extent that any gaps in the Victorian regulatory framework are identified, these should be addressed through a rule change rather than through ring-fencing guidelines. Such an approach will facilitate the continued realisation of the outcomes that the AER is seeking to ensure, while also providing a comprehensive and consistent framework for businesses to operate within.

Ensuring ring-fencing arrangements do not hinder ownership of storage or generation

The AER has paid significant attention to the use of battery technology by TNSPs in its discussion paper. This technology, along with other network support devices, has the scope to deliver significant benefits to customers when deployed for the transmission network.

While the ENA explores this issue in its submission, and the AER's discussion paper uses the BESS as an example of a TNSP-owned utility scale battery, it is worth noting that the BESS shows:

- how current ring-fencing arrangements are working without any adverse impact on competition; and
- why fundamental changes to current ring-fencing arrangements are unnecessary.

While we own the BESS, the capacity provided by it (both charge and discharge) is leased to a National Electricity Market (NEM) market participant who, in turn, provides capacity into the NEM energy and ancillary services markets. This arrangement facilitates full utilisation of the BESS while also demonstrating the ability of new technologies to be successfully integrated into the energy network. Importantly, as we have no role in how or when the BESS participates in the energy and ancillary services markets, we have no scope to influence those markets.

As the current arrangements are working well, and our role as asset owner does not impact competition, we would appreciate confirmation from the AER that the arrangements we have in

place are an appropriate and efficient way to deliver network services. It would be a poor outcome if future projects, including projects similar to the BESS, were curtailed by unnecessary amendments to current ring-fencing arrangements.

Ensuring the transformation of the energy sector continues

A rapid transformation is underway in the energy sector and this transformation needs to deliver for all customers. For us to continue to apply our resources and expertise to deliver for our customers, we need to have access to a full toolkit. Ill-considered ring-fencing arrangements may limit our ability to respond to the challenges ahead in a prudent and efficient manner. The AER must therefore ensure that any changes to the Victorian regime do not introduce barriers that unduly limit our ability to respond in an innovative, flexible and timely way.

Continued support for additional services

The AER has sought views on what arrangements may be needed for other potential contestable electricity services offered by TNSPs. These are contestable services that are:

- usually provided to large, sophisticated customers for bespoke services closely related to core network services; and
- typically involve specialised areas of expertise for which we are well-placed to deliver.

As discussed above, inappropriately designed ring-fencing arrangements can impose barriers (and therefore additional costs) that could result in us reconsidering whether we can continue to provide those service and the cost at which we can do so.

If you have any queries regarding this submission, please contact Ian McNicol (03 9695 6604 or at ian.mcnicol@ausnetservices.com.au) in the first instance.

Yours sincerely

A handwritten signature in black ink that reads "C. Eddy". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Charlotte Eddy
Manager Economic Regulation
AusNet Services