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Ms Clare Savage
Chair
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By email: AERringfencing@aer.gov.au

DRAFT RING-FENCING GUIDELINE

Dear Clare

Thank you for the opportunity to provide a submission in response to the Australian Energy Regulator's (AER) *Draft Ring-fencing Guideline Version 3*, published on 27 May 2021.

Energy Consumers Australia (ECA) is the independent, national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council (the Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

Overview

In our previous [submission](#) (supported by Strategen Australia Pty Ltd) we outlined the uncertainty around how storage technologies and applications are going to open up a range of technological, economic and societal innovations in the delivery and trading of energy and energy services. consumers.

We recognise that this is blurring the boundaries between traditional regulated and unregulated models and services but in doing so creates new potential for value stacking of services with a range of benefits for customers.

However, the exact form and detailed structure of such applications (and value stacking realisation) is still emerging and difficult to predict. Due to this disruption the future will likely look very different from the past to the extent that we cannot even currently anticipate exactly how such opportunities will be realised and evolved through this emerging technology.

For these reasons we advocated for a principles-based approach rather than a prescriptive approach to the Ring-Fencing Guideline, along with enhanced information provisions, to provide a means for emerging technology applications and markets to be evaluated as they expand and mature and as experience is gained, and shared, across a diverse and expanding range of technology applications.

In so doing we suggested that flexibility and optionality would allow a more fulsome range of applications to emerge (at least in initial stages of these nascent markets) to avoid inadvertently precluding opportunities that could provide customers with improved service outcomes. Given it is not currently possible to accurately predict how such services and applications might emerge it is important to ensure that future customer values, expectations and needs together with a set of principles guide such regulatory arrangements.



In our view, appropriate and measured flexibility and optionality could support greater cost efficiencies and outcomes for storage technology as a whole and accelerate the growth of new markets to the benefit of customers. Ensuring that new business models and collaborative applications are not inadvertently precluded can help competitive dynamics by providing a stronger foundation from which new customer services can be established and explored across a range of providers.

We appreciate that the AER has embraced a flexible approach in proposing a draft exemption framework to allow for accelerated Stand Alone Power Systems (SAPS) provision which will help provide improved service outcomes, particularly for rural and remote customers.

We commend the AER's recognition of the risks of contestable markets addressing remote customer needs and believe this action will facilitate greater market growth for SAPS provision in time. However, we understand from discussions with the network businesses that are most likely to move to a greater role for SAPS in high cost to serve areas, that amendments to the proposed generation revenue cap thresholds are required to accommodate the timely and efficient deployment of SAPS in a significant number of communities.

In the matter of the proposed Energy Storage Device (ESD) framework, we remain concerned that it essentially continues the previous waiver process. The consequences of retaining this framework is that it may constrain early opportunities, particularly for local storage applications (often referred to as community or neighbourhood storage) to establish and accelerate market opportunities for the benefit of customers. These options to locate appropriately sized storage close to the consumers to be served, open up the significant potential for flexible load and variable generation that would otherwise depend on customers installing their own storage at their premises.

The proposed Ring-Fencing Guideline reforms may not do enough to enable emerging opportunities in a manner that works in the long-term interests of consumers.

We consider that there are several markets emerging simultaneously for storage, and that efforts to protect competition in one more mature market may inadvertently impact the growth of others. We expand this thinking below as we explore how storage services are emerging confluent across both wholesale, FCAS and network support services markets.

We request that the AER give consideration to the state of these different markets and storage services in making a final determination in how to better address these emerging opportunities.

Energy Consumers Australia also requests that the AER outline its proposed processes (which still lack detail) to describe how the proposed waiver process will avoid slowing the exploration of diverse local storage applications which could delay valuable opportunities to transparently learn from a range of storage applications and programs. We believe that allowing a broad-range of programs to explore approaches to deliver greater cost-efficiencies and service outcomes for customers as a whole, through storage solutions, will underpin and accelerate broader market developments.

Stand Alone Power Systems

For the reasons outlined above Energy Consumers Australia supports the proposed move from waivers to exemptions to support improved outcomes for customers who stand to benefit from Stand Alone Power System installations (SAPS), particularly in remote and regional areas where we expect to see a range of improved service outcomes demonstrated in coming years.

We believe this will provide important flexibility for customers in areas where emergency situations may necessitate a fast response, with appropriate resourcing that networks can provide across their service areas.



We are pleased that the AER agrees with the opportunity provided to enable the delivery of SAPS in remote and regional areas where sparse customer groupings and long distances make the emergence of competitive markets uncertain.

The proposed exemptions will allow networks to quickly establish SAPS in such locations which will in turn help this important market to grow. Energy Consumers Australia believes that a growing number of customers benefitting from these emerging more affordable and more resilient services will help establish a more substantial market sooner than would otherwise be possible. We recognise that, in many cases, that networks are likely to source such products and services from third party providers, which in turn will bolster market development and capability.

Critically, as we outlined in our original submission, and as we note the AER has recommended, information gathered and shared through this SAPS exemption process will help to inform future regulatory updates and market developments. Such information provision is a critical enabler, and pre-condition, of additional flexibility for storage market establishment and we look forward to seeing network participants reporting transparently on and sharing the outcomes achieved through such programs.

Contestable and community services from storage (Energy Storage Devices – ESDs)

We recognise that the AER is having to make its decision while there is still a considerable degree of uncertainty around how services and applications will emerge, particularly in instances of storage technology serving localised groups of customers.

For instance, there is a range of potential options and benefits regarding the size and location of storage - including behind the meter (BTM) customer resources - with a number of parties seeking to unlock different value for customers or address different emerging challenges with this technology. Furthermore, in many of the emerging practical examples of storage applications being explored, value stacking is needed to unlock the full benefits of the storage applications for customers.

It also seems that many of the emerging, smaller-scale community storage programs appear to be driven by networks seeking to address predominantly localised challenges driven by localised peak demand and relating to addressing challenges of integrating growing penetrations of localised rooftop solar PV. Networks are well placed to identify opportunities to improve service provision for scaled storage technologies on behalf of a range of customers, with benefits returned to customers in the form of improved service outcomes and reduced network service costs.

Energy Consumers Australia is concerned that slowing the process through which networks can explore such solutions may slow the pace with which industry is able to address the growing challenges of increased penetration of distributed generation including the ability to support the realisation of important customer aspirations from the value from increased export. Networks have an expanding challenge to enhance service levels for a growing number of customers seeking to install and realise value from distributed generation while efficiently managing the network costs to provide these outcomes. Local, community-scale storage is clearly a tool that is emerging to address this challenge, in conjunction with growing fleets of BTM storage devices at the customers premises.

It seems apparent that, while BTM storage is already emerging and participating in aggregated virtual power plant (VPP) style trials, that it will take time for BTM resources to reach penetrations where they can address a range of emerging local hosting capacity challenges alongside the growing populations of distributed rooftop solar PV installations.



In the meantime, scaled, localised, community storage models may offer at least some groups of customers immediate local benefits in areas of immediate or imminent network challenges. In exploring these solutions we also expect to see networks simultaneously exploring opportunities to expand the capability to engage with local customer and third-party resources to address these challenges and share spare storage capacity. We encourage the AER to ensure that information provision is required in instances where network-led scaled local, community storage solutions are allowed to proceed to help subsequent market development.

While we recognise the AER's concern with networks exploring applications of storage which cross between regulated and unregulated services, we consider that markets for networks services and non-network solutions for emerging localised challenges are still particularly immature.

While the opportunities for small-scale and localised storage to participate in wholesale and FCAS markets are also developing Energy Consumers Australia encourages the AER to examine the relative maturity of these different storage markets and the extent to which storage programs are helping to advance the maturity of these markets by exploring different and emerging opportunities.

Examples of early local, community storage programs

Recent Energy Consumers Australia research indicates that customers are increasingly interested in storage technology and anticipating greater benefits to be realised from this technology as it becomes cheaper.

Customers broadly expect storage to help reduce their energy costs by increasing control and maximising the benefits of solar and are positively inclined to participate in shared battery storage concepts which appeal because of the relative low cost of these shared asset resources, compared with the alternative of purchasing their own BTM storage. However, customers fear giving up control of their energy management (e.g. when their rooftop solar PV export is stored and discharged) and remain unsure as to how this impacts their own energy costs (e.g. are they exposed to tariffs for subsequent import despite their export potentially being used to charge the device). This highlights the work that is still required to explore how such programs and technologies can be applied in a manner that addresses customer and community desires and concerns.

Western Power's community battery program (in partnership with Synergy the local retailer) is demonstrating how the benefits of in-front-of-the-meter storage can be shared with local customers, while addressing targeted network challenges including localised peak demand and addressing power quality in areas of high solar penetration.

This, in turn, is helping to establish a battery storage market with mutually beneficial learnings in terms of installation, operation and benefit sharing. The Powerbank community battery that integrates bulk solar and battery storage into the existing electricity grid also provides customers with an option to virtually store their excess rooftop solar. This is aimed at addressing the needs of local customers with future instalments likely to explore how to allow those without solar to also access the storage directly highlighting the still developing nature of such programs.

The Powerbank model is similar to the Ausgrid Community storage trials, which also aim to address areas of high solar penetration to address network challenges while sharing the benefits of the storage investment with local customers. This, like the Western Power trial, allows solar customers to store excess generation for credit, using the locally stored generation at times that address network challenges or local conditions. The benefits of the community trial are able to be shared with all customers regardless of their retail arrangement.



United Energy is also implementing pole-top storage trials that address similar challenges of network stability in areas of high rooftop solar PV penetration.

These trials and pilots are aimed at addressing local network challenges while providing a shared asset for the community at an effective cost compared to traditional network solutions. Energy Consumers Australia also understands that this provides improved asset utilisation compared to traditional network augmentation as the capacity of the storage asset is able to be used for a range of customer needs.

Furthermore, the Ring-Fencing Guideline is not the only area of regulatory reform requiring consideration in the implementation of such storage programs. There are important questions of localised tariff arrangements and cost and benefit sharing that require further exploration to ensure customers can realise the benefits of being connected to local resources and allow enhanced distributed generation utilisation for localised customers. Exploration of these early storage models is required to further address the challenges in navigating and implementing transparent revenue and cost sharing mechanisms as well as exploring potential changes to tariff arrangements recognising the localised nature of these programs.

Comments on the proposed Ring-Fencing Waiver Process for Shared Storage

In Energy Consumers Australia's view, while it is likely that several storage models will emerge to share and pool localised distributed generation benefits, these will take time to emerge. These models need to explore how to address localised network challenges effectively while sharing spare capacity with third parties and customers. Our concern is that limiting or slowing the ability of parties to explore local, community storage applications and in realising shared benefit maximisation and effectiveness will ultimately slow the development and deployment of such capability.

Also, in recognising that networks are well placed to deploy community scale assets and to manage these efficiently, in line with current incentive frameworks and regulations, Energy Consumers Australia believes that network-led programs will help networks to identify, establish and explore the processes and information required to enable emerging third-party models to share the capacity of community storage installations. This, we believe, will be an incremental process for networks, who are still determining how effectively battery storage installations can address local network conditions.

It is our expectation that a framework that supports this evolving process should lead to improved capability and increased opportunities for third-parties to provide storage capacity services to networks. Establishing shared practices and expectations around information sharing (which is our recommended pre-condition for any allowed flexibility) will be an important step to developing more mature shared asset capacity benefits to being realised and procured from a growing range of sources.

In parallel, a shift to alternative approaches that avoids network augmentation should result in improved utilisation of assets. Community storage arrangements will allow alternative assets to be used in place of traditional network augmentation with improved utilisation through value stacking and shared community use. We believe the AER's incentive frameworks for networks is already encouraging the pursuit of the most efficient customer solutions. Furthermore, increased shared consumption over which to cover the costs of these assets also provides better value for the customers that these assets serve with a better link directly to their own localised resources and BTM investments.



Exactly how these opportunities will scale remains to be seen as there is little evidence of how different parties can best share access to storage and our previously proposed staged approach to the Ring-Fencing Guideline was designed to facilitate greatest flexibility in earliest stages of market development. Consideration of more agile regulatory arrangements that reflect a 'learning by doing' evidence-based approach will help to navigate this uncertain transformation. Rather than stifling competition, we anticipate such measures would help to increase the maturity of localised network markets, reducing the costs of services and technologies for customers.

Our proposed flexibility approach was not intended to be a retrospective control of harm but rather a controlled period of flexibility to help establish new markets and competition, commensurate with enabling and realising growing benefits for customers.

Information provision and monitoring is critical to transparent processes from which industry can develop.

This will also allow further exploration of the range of barriers that still need to be understood, explored and overcome to unlock benefits for customers. While Energy Consumers Australia understands the AER's preference to control this process with a waiver framework, we are concerned about the potential for administrative burden and time lag to result from this process. Therefore, if such a process is to continue, we strongly encourage the AER to provide further detail on how it will manage a streamlined consideration of numerous such proposals. A clear expectation of the type of information required to consider and approve such applications will be important to provide industry with confidence in exploring such solutions.

It is important that parties exploring the benefits of shared storage applications have confidence in the process required to determine the appropriate of such proposals in a timely manner.

There is a risk that networks will have to endure a potentially costly and complex waiver process. Equally there is a risk that third-parties will need to navigate the still uncertain and complex provision of network services. An opportunity could be missed to encourage different types of collaborative models to emerge to unlock the full value of this technology for customers and communities.

In exchange for provision of flexibility we argue that increased reporting and transparency should address information asymmetries and perception of information imbalances. On this point we are in alignment with feedback from industry in terms of using this process to facilitate improved information to support industry development. As a result of this transparency, over time we expect to see growth in the competitive procurement and provision of services increase as an important measure of market maturity and competitiveness.

To be clear Energy Consumers Australia does not advocate for such flexibility in perpetuity but rather for a limited period of time only to help markets become established. These flexible arrangements can be adjusted and tightened over time as markets become clear and established, though we recognise it may be important to provide guarantees for the life of assets for programs implemented under such exemptions. We expect that the AER will use improved information gathering to establish and monitor how storage devices are being used and how the costs are being allocated across the different parties involved (with the goal of ensuring customers are benefitting from the services being provided).

Such measures applied in a commensurate manner can help to provide agility in the application and formation of new markets helping to reduce the costs and complexity typical of new markets for customers. This would ideally enable networks to implement programs quickly with intent to share the excess capacity of batteries with other providers and customers.



One of the key principles that Strategen outlined in its supporting submission was that networks would increasingly procure a growing range of services from third-parties and we believe, in many cases, that this could start with the indirect provision of shared capacity through sharing battery capacity with third-party providers. As outlined above, we expect that it will take time for supporting procurement processes to grow and mature.

We hope that the AER considers these matters further in consideration of improved flexibility for storage programs and/or the implementation of a streamlined waiver approach that seeks to minimise the administrative requirements to the minimum extent possible with strong information gathering requirements to inform subsequent reforms.

We also note the AER's intention to re-examine its Ring-Fencing Guideline approach in the future, as needed, to respond to market developments, such as the ESB's post-2025 Market Design Project and encourage the AER to continue to consider how fit for purpose this approach is for dealing with growing disruption and uncertainty.

Contact for this submission

If you have any questions please do not hesitate to contact me at lynne.gallagher@energyconsumersaustralia.com.au.

Yours sincerely,

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