



20/01/2020

Mr Arek Gulbenkogu
Australian Energy Regulator
GPO Box 520
Melbourne, VIC, 3001

Dear Mr Gulbenkogu,

Mondo welcomes the AER examining the issue of Distributed Energy Resource (DER) Integration and appreciates the opportunity to comment on how DER integration expenditure should be assessed. This submission considers how the AER should focus on updating its existing expenditure review guidelines to include consistent principles for the assessment of DER integration expenditure.

Mondo provides a range of contracted transmission and distribution assets, including grid connections for new generators. In addition, Mondo provides a range of energy services, including metering and platform based DER services that aggregate DER into community mini-grids. Mondo strongly supports a renewable energy future and the need to integrate renewables into a strong and stable electricity system.

DER Integration and the current assessment framework

Mondo considers that the current assessment framework is fundamentally capable of assessing DER integration expenditure. While this 'new driver' for expenditure may on the face of it warrant its own approach to assessment, it fundamentally takes the shape of an integrated OPEX & CAPEX business case. This is not limited to DER integration expenditure and is becoming increasingly common across a range of expenditure categories.

The current techniques outlined within the Expenditure Forecast Assessment Guideline (EFA Guideline) are also capable of assessing these investments, however to best enable assessment of DER integration expenditure (and other integrated OPEX and CAPEX expenditure) against the *operating expenditure objectives*¹ and *capital expenditure objectives*², we consider that the EFA Guideline could be updated.

This update should outline a series of principles that can be used to guide the application of existing assessment techniques (as defined within the EFA Guideline). This would enable a more holistic assessment of expenditure that crosses OPEX and CAPEX, ensuring that the interaction between expenditure categories is adequately considered.

This ensures that, as lower cost options for the provision of standard control distribution services continue to emerge (such as network support contracts, joint use grid scale storage, aggregated residential storage), regulated network business are able to effectively adopt and implement these options. Making sure that the assignment of costs to either OPEX or CAPEX does not become an artificial barrier to lowering consumer energy costs.

Why descriptive over perspective?

Updating the EFA Guideline to outline DER integration assessment principles will complement the existing quantitative methodologies outlined in the EFA Guideline.

¹ National Electricity Rules, Chapter 6 version 94 - Page 690

² National Electricity Rules, Chapter 6 version 94 - Page 693

Bright future.

Using principles will keep the EFA Guideline relevant during this time of rapidly changing technologies and avoid compliance costs for customers that can arise from prescriptive approaches to regulation as noted by the AER.³

Mondo suggests the following approach and principles may be relevant to a revision of the EFA Guideline:

- **Customer** – DER integration expenditure is often driven by customer uptake of technology and local community initiatives. In this case, high-quality genuine engagement with customers and communities should form a key pillar in assessing proposed DER integration expenditure. Additionally, where the benefits are ‘market based’, and flowing to the community, the role of this engagement and the feedback provided by the community should have significant weighting in assessing expenditure.
- **Enablement** – while the scope of economic benefits included within any cost benefit analysis (CBA) used to assess DER integration expenditure should be well defined, tangible and quantified, there may be a role to consider the enabling effect of some DER integration investments. For example, investment in an IT integration platform to support interface with third party service providers may be initially proposed to support a single demand management project or provider. This investment is likely to have an enabling effect, removing barriers of entry for other demand management providers and developing economies of scale for providers to expand into other locations. While a quantified value of this ‘enabling’ effect may not be robust enough for inclusion within a formal CBA, it is worthy of consideration.
- **Fit for purpose** – the scale and complexity of the assessment techniques applied should be commensurate with the level of expenditure under assessment. For example, developing a CBA by developing and applying an hourly market integrated resource planning model to understand the market benefits of a \$500,000 DER integration investment is not likely to be commensurate with the costs of proposed expenditure.
- **Industry Alignment** – There is a recognition that the current energy system is rapidly transforming. In the face of this there has been significant work undertaken within the industry both locally and overseas to understand the credible development pathways for the operation of an electricity system in an environment with significant levels of DER. Much of this work also includes macro-scale CBAs that can inform the appropriateness of the smaller ‘no regret’ investments required to be undertaken to enable the industry to transition. The AER should consider this work, such as the Open Energy Networks process, in assessing any proposed DER integration expenditure.
- **Policy driver** - Changes in both federal and jurisdictional government policies and regulations impact the rate of DER uptake and hence the timing of DNSP investment in DER integration. Mondo considers that any relevant current or future policies should form a consideration of the driver and timing for DER integration expenditure.

Mondo hope that the comments contained in this submission are of assistance to the AER in its deliberations. Please feel free to contact Adam White either by email or on [REDACTED] if you have any further inquiries.

Yours sincerely.

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Margarida Pimentel
Manager Policy and Aggregation Services

³ AER (Nov 2019) “Consultation Paper – Assessing DER integration expenditure”. p.17