



Ausgrid Submission

AEMC Consultation on regulatory sandbox arrangements

January 2019

31 January 2019

Attn: Mr Owen Pascoe
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online

Dear Mr Pascoe

Ausgrid is pleased to provide this submission to the AEMC consultation paper on regulatory sandbox arrangements to support proof-of-concept trials (the consultation paper).

The electricity industry is going through a period of significant change. Like other parts of the energy system, our network needs to adapt to this new landscape and manage a growing mix of distributed energy resources and other technologies across the grid.

There is a risk that our regulatory framework will be slow to adapt to the pace of change and hinder the adoption of new technologies that will assist the efficient transition to a low carbon future. For this reason, we support the development of regulatory sandbox arrangements that will encourage innovation and the trial of new technologies that will help distribution networks to evolve.

This submission provides views on each of the questions raised by the AEMC in its consultation paper. We consider that formal, predictable, regulatory sandbox arrangements are required to provide the flexibility and certainty sought by stakeholders.

We are committed to working with the AEMC on its 2019 Electricity Networks Economic Regulatory Framework Review. Should the AEMC have any questions in relation to this submission, please contact John Skinner, Regulatory Policy Manager on 02 9269 4357 or john.skinner@ausgrid.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Iftekhar Omar', written in a cursive style.

Iftekhar Omar
Head of Regulation

Feedback on individual questions

Questions		Feedback
Question 1 – Other sandbox examples		
	Are there other examples of regulatory sandbox arrangements that are relevant when considering these arrangements for the NEM??	The Singapore Energy Market Authority’s (EMA) Regulatory Sandbox, while mentioned in the Letter from the Senior Committee of Officials, is not referred to in the AEMC’s consultation paper. The EMA’s Regulatory Sandbox contains a number of useful features, including a public register of ongoing sandbox trials which provides information about trials that are underway.
Question 2 – Other relevant trials		
(a)	What other proof-of-concept trials are relevant when considering formal regulatory sandbox arrangements for the NEM?	<p>The AEMC discussion paper lists a range of trial projects being conducted across the energy sector. The list of projects includes a number of battery trials, such as Bruny Island Battery trial, Hornsdale wind farm battery trial, and AGL’s virtual power plant in South Australia.</p> <p>Ausgrid has identified community batteries as an efficient option that has yet to be fully explored in the national energy market. A trial of such an initiative is likely to require formal sandbox arrangements as it will likely challenge many existing regulations and metrology rules.</p>
Question 3 – Barriers to proof-of-concept trials		
(a)	Are proof-of-concept trials being inhibited by current market regulations or processes?	Energy market regulation is a complex mix of national and state laws and regulations. There is no doubt that trying to navigate energy market regulation would be a daunting prospect for entrepreneurs not familiar with energy regulation. While it is

Questions		Feedback
		likely that some trials will have been inhibited by regulation, in some instances it may be policy, rather than regulation, that is hindering trials.
(b)	If so, what are the potential barriers to proof-of-concept trials that might be addressed by a regulatory sandbox initiative?	<p>If a regulatory sandbox contains a service that provides 'fast, frank feedback' for innovators, then there is the potential for the regulatory barrier associated with navigating complex energy market regulation to be lowered.</p> <p>However, consistent with the EMA model, an application to participate in the regulatory sandbox is still likely to require some investigation of the legal/regulatory requirements that may need to be relaxed. This means that a proponent will still need to acquire at least a basic understanding of the regulatory regime.</p>
Question 4 – Access to guidance on the regulatory framework		
(a)	Is there a lack of access to guidance for innovative new entrants on navigating the energy regulatory framework?	Yes, Ausgrid agrees that there is a lack of guidance for innovative new entrants on navigating the energy regulatory framework.
(b)	<p>If so:</p> <ul style="list-style-type: none"> • What type of guidance is needed? • Who should provide it? • Should guidance be coordinated across the AER, AEMO and AEMC? • How should the provision of guidance be funded? 	<p>To be effective, any request for guidance should require a proponent to complete an application form outlining the key features of the proposed project. This will ensure that market bodies have enough information to provide meaningful advice to proponents. It will also ensure that proponents think carefully about their innovation project prior to approaching one of the market bodies.</p> <p>In our view, the provision of formal, written, advice is inconsistent with the goal of fast, frank feedback for innovators. We support the provision of advice in a manner similar to Ofgem's Innovation Link. The advice provided by Ofgem is an informal</p>

Questions		Feedback
	<ul style="list-style-type: none"> Should an application be required in order to gain access to detailed guidance? If so, what criteria should apply? 	<p>steer from the regulatory experts, rather than an official view. Such an approach will also ensure that the costs of such a program are minimised.</p> <p>If such an arrangement is to be established in the NEM, the market bodies should be required to coordinate their advice.</p>
(c)	Is there a role for binding advice from market bodies on certain aspects of the regulatory framework to support proof-of-concept trials?	Ausgrid does not see the need for binding advice from market bodies. Such an approach will increase costs and likely lead to a more risk averse approach by the market bodies. There is also a risk that binding advice from market bodies will be seen as a cheaper substitute to legal advice.
Question 5 – Trials under AER enforcement discretion		
(a)	Is the AER's ability to issue no action letters, provide waivers and exemptions, and use its enforcement discretion sufficient to facilitate proof-of-concept trials in the NEM? If not, why?	We do not view no action letters, waivers and exemptions as the best option for facilitating proof of concept trials. In our view, these options are not as transparent or predictable as more formal sandbox arrangements and are more open to regulatory discretion.
(b)	Is there a need for a more formal process for proponents of proof-of-concept trials to seek a no action letter?	Should no action letters be the AEMC's preferred approach, we would support a more formal process to apply for a no action letter.
(c)	Should no action letters that facilitate innovation or proof-of-concept trials be made public?	Should this be the AEMC's preferred approach, we would support the no action letters being made public, subject to the removal of confidential information.

Questions		Feedback
Question 6 – The need for a formal regulatory sandbox		
(a)	Would formal regulatory sandbox arrangements, where some regulatory requirements are relaxed on a time-limited basis whilst appropriate safeguards remain in place, serve to better facilitate proof-of-concept trials in the NEM?	Yes, Ausgrid supports formal sandbox arrangements. Formal regulatory requirements will ensure predictability and certainty for proponents. Importantly, the formal regulatory arrangements need not be onerous. A review of overseas sandbox arrangements demonstrates that the sandbox framework can be relatively simple.
(b)	What other regulatory tools are needed to facilitate proof-of-concept trials?	We have not identified other tools that are needed to facilitate trials.
Question 7 – Design of formal regulatory sandbox arrangements, if required		
(a)	If required, should the objective of the formal regulatory sandbox arrangements be to facilitate further proof-of-concept trials in the NEM? If not, what should the objective be?	Ausgrid agrees that the objective of any sandbox arrangements should be to facilitate proof-of-concept trials. The overall objective of sandbox arrangement is to encourage innovation, thereby improving dynamic efficiency and delivering better outcomes for customers. We consider that economic efficiency and the long-term interests of customers should be a primary consideration.
(b)	If required, what metrics should be used to measure the success of a formal regulatory sandbox arrangement?	We do not have a view on what metrics should be used to measure the success of a sandbox arrangement. However, sandbox proponents should be required to report on the success or otherwise of their sandbox project, as well as the key findings from the trial. This report should be made public following the conclusion of the trial.

Questions		Feedback
(c)	<p>If required, what should be the high-level criteria for accessing a regulatory sandbox arrangement?</p>	<p>In November 2018 Ausgrid hosted a ‘Network of the Future’ forum with consumers, researchers, industry representatives and other networks. In that forum, participants developed a set of principles against which Ausgrid will assess innovation projects.</p> <p>It was agreed by participants that all innovation projects must be in the long-term interests of consumers with respect to price, quality, safety, reliability and security of supply. In relation to innovation, this means that all projects must be safe and create value for customers. The principles developed to assess individual innovation projects were as follows:</p> <ul style="list-style-type: none"> • Maximise economic utility of new and existing assets • Lower costs for customers • Solve a specific problem • Unique-ness of problem and collaborative opportunities • Accelerate cost effective decarbonisation • Improve fairness • Reliability and price <p>These principles could be used by the AEMC to inform the development of high level criteria for accessing sandbox arrangements.</p>
(d)	<p>How could fairness be addressed in the case where proponents of similar trials apply to access sandbox</p>	<p>We think it unlikely that proponents of similar trials will apply to access sandbox arrangements simultaneously. In our view, there should not be a formal ‘call’ for sandbox projects, but proponents should apply on an ‘as-needed’ basis. For this</p>

Questions		Feedback
	arrangements but only a limited number of trials can be accepted?	reason, we consider that access to sandbox arrangements should be granted on a first come, first served basis. However, there is no reason why two proponents with similar projects could not both be granted a sandbox.
(e)	<p>If required, what should be the key features of a formal regulatory sandbox arrangement for the NEM?</p> <ul style="list-style-type: none"> • What regulatory arrangements should be within scope to consider for relaxation? • What should be the safeguards for consumers? • What obligations should be placed on the participants (e.g. knowledge sharing requirements)? 	<p>We do not have a firm view on what regulatory arrangements should be in scope for relaxation in a regulatory sandbox, however we do not see the need to unnecessarily restrict areas of regulation that might be suitable for sandbox trials.</p> <p>That said, it is very important that consumers are adequately protected for the duration of any trial, particularly if regulations involving consumer protections are relaxed. Possible safeguards might include:</p> <ul style="list-style-type: none"> • Participation in a trial must be voluntary • Consumers must not be worse off by participating in the trial • At the end of the trial, consumers must be able to fall back on their pre-existing consumer protections <p>As discussed in 7(b), in our view sandbox proponents should be required to provide a report at the end of the trial. This report should outline the success or otherwise of the trial, as well as any key findings. This report should be made public.</p>
Question 8 – Trialing innovative regulatory processes		
(a)	How could formal regulatory sandbox arrangements be used to trial changes to regulatory arrangements to guide adoption of reforms across the market?	We do not see the need to ‘trial’ changes to regulatory arrangements. Should a trial project reveal the need for a change in regulatory arrangements, the proponent can initiate a rule change request at the end of the trial.



Thank you

