Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

Dear Ms Collyer

UEG Energy submission to ringfencing inquiry (Package 1)

I am writing on behalf of UEG Energy, an Australian renewable energy developer, owner and operator of medium-scale, distribution-connected battery storage, to comment on the Australian Energy Market Commission's (**AEMC**) Electricity Network Regulation Review Clarifying Distribution Ring-fencing (Package 1).

UEG Energy

UEG Energy (**UEG**) provides an innovative non-network solution for energy distribution networks (referred to as 'energy networks' and 'DNSPs' in this submission), strategically deploying medium-scale batteries in heavily constrained networks to help avoid blackouts and brownouts and to support rooftop solar.

UEG is specifically working with Ausgrid to deploy a portfolio of community-integrated network batteries totalling approximately 6.75 MW / 29.7 MWh across four sites, connected directly to heavily constrained 11kV feeders. UEG's approach is an innovative alternative to traditional network augmentation.

UEG welcomes Ausgrid's willingness to use non-network solutions to reduce network costs. Ausgrid has acknowledged that UEG Energy's solution presents a unique opportunity for Ausgrid in that it not only mitigates network constraint but also has the potential to:

- Reduce the costs of electricity distribution for consumers,
- Create greater opportunity for more rooftop solar, and
- Reduce the risk of supply interruptions to customers.

UEG will be expanding its operations across other Australian energy networks in coming years. Another distribution network has described UEG's approach as the best non-network solution they have seen.

The regulatory landscape for non-network solutions

Distribution energy networks are critical players in the Australian energy market and will be essential to ensuring Australia reaches 82% renewables by 2030. They will be central to the rollout of consumer energy, from rooftop solar to battery storage to electric vehicle charging but they can achieve this through the application of non-network solutions utilising existing National Electricity Rules, without any relaxation of ring-fencing.

In practice, non-network solutions are generally applied as a last resort or an afterthought by energy networks for two key reasons.

- Incentives for electricity distributors to move from traditional capital-intensive augmentation (ie, adding to the regulated asset base (**RAB**)) to service-based operational expenditure (non-network solutions) need to be more compelling.

  Electricity distributors need stronger incentives to realise a reliable, long term investment return (for shareholders) to genuinely consider entry into services-based non-network contracts with third parties.

- Non-network solutions do not have 'duration parity' or equal financial treatment with network solutions across regulatory determination cycles. A dollar of capital expenditure (capex) baked into the RAB in one regulatory cycle is locked into future regulatory determinations, whereas a dollar of operational expenditure (opex) on a non-network solution can only be planned for across the tenure of the current regulatory budget cycle.

  The implication is that electricity distributors cannot plan and contract a non-network solution beyond the current regulatory cycle. Electricity distributors and third parties that offer non-network solutions need budgetary certainty that has 'duration parity' with network solutions.

Another governance issue persists, which the AEMC and other regulators need to address. Reporting and tracking of non-network solutions is fragmented across networks' annual planning reports and RIT-D processes, with no consistent, consolidated national public register. This makes it unnecessarily challenging for third parties to proactively identify and participate in the provision of non-network options with electricity distributors.

Ring-fencing

The regulatory framework for ring-fencing needs to balance the needs and interests of all stakeholders (DNSPs (and their affiliated businesses), generators, retailers and other non-network providers) to ultimately deliver an outcome that is in the best interests of consumers.

In our view, a core issue is that the current framework does not sufficiently incentivise DNSPs to genuinely use non-network solutions as a business-as-usual planning activity. Regulatory change that strengthens non-network incentives will:

- drive DNSPs to consider non-network options first, before considering more costly network augmentation or waivers to ring-fencing;

- crowd in competition from more non-network providers; and

- create the conditions for more innovative, effective and cost-efficient solutions for consumers.

Under those conditions, energy networks should be required to demonstrate genuine procurement of non-network solutions (where available) before any extension of ring-fencing exemptions is considered. Energy networks should also be required to minimise connection times and costs for non-network solutions.

UEG supports Nexa Advisory's proposed rule change and its submissions to this consultation.

Nexa Advisory is correct when it says in its submission: *"networks should provide regulated services, make network information and facilities available on fair terms, and procure competitive capabilities where possible. They should not receive a general licence to fund and operate adjacent services through the regulated asset base."*

Ring-fencing protects competition and encourages innovative, cost-efficient solutions that accelerate our ability to build the smart grid we need as we decarbonise. The relevant test is ownership, not connection point. Any reduction in ring-fencing requirements benefits monopoly energy providers, reducing competition and innovation, leading to higher power bills for all Australians. Any such relaxation must be rejected.

Recommendations

UEG makes seven recommendations.

1. Create stronger non-network solution incentives to realise a reliable, long-term investment return (for shareholders of DNSPs) for entry into services-based non-network contracts with third parties.

2. Retain and strengthen the current ring-fencing framework, with ownership rather than connection point as the governing test.

3. Support the intent of the Nexa Advisory rule change, including a strict market failure test for any DNSP waiver.

4. Require networks to demonstrate genuine non-network procurement before any waiver extension is considered.

5. For DNSP budgetary determinations and financial treatment, create 'duration parity' between network and non-network solutions, so that non-network contracts can extend beyond regulatory cycles.

6. Standardise network support agreements and set clear connection timeframes and cost benchmarks for third-party providers.

7. Coordinate with the AER's parallel review of the Distribution Ring-fencing and Shared Asset Guidelines so each issue is resolved in the appropriate forum.

Should you wish to discuss any of these matters further, I can be contacted on at info@uegpartners.com

Yours sincerely

George Knight
Chief Executive
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