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Re: United Energy Submission – AEMC Integration of Energy Storage, Regulatory Implications – Ref: SEA0002

United Energy (UE) welcomes the opportunity to respond to the AEMC discussion paper *Integration of Storage: Regulatory Implications*, draft report (the Draft Report).

We are entering a time of unprecedented change in energy markets as new technologies are adopted by customers, new market participants emerge and networks are repositioned from conduits of one directional flow to a multidirectional platform for trade.

In order to optimise the benefits of this evolution, it is critically important that the development of the policy and regulatory environment is supported by the robust, balanced and evidenced analysis. While much of the analysis conducted by the AEMC in the development of the draft report is appropriate, we have concerns regarding a number of conclusions and recommendations that would result in increased regulation and the creation of barriers to market based deployment of technology that are not supported by appropriate evidence or robust cost benefit analyses. Of particular concern are the barriers to network participation in storage deployment and operation that have the potential to severely limit the use of storage to deliver network benefits.

The views expressed below are complementary to the submission of the Energy Networks Association.

United Energy and storage

UE is an electricity distribution network service provider to more than 660,000 customers across east and south-east Melbourne and the Mornington Peninsula over an area of 1,472 square kilometres.

As noted in the Draft Report, we have trialled the use of storage on our network since 2014. These trials have demonstrated that storage has the potential to provide significant benefits as an alternative to traditional augmentation as well as for demand management, voltage control and other network support activities into the future. We have proposed the use of storage as an alternative to network augmentation as part of our EDPR submission in small areas where we need to make an investment and it is economically more efficient for us to invest in storage than traditional augmentation. With our proposal, on current price projections, for around 300 units over five years over our 660,000 customer base representing less than 0.05% of customers, we do not see this as having any material impact on the competitive market for storage on our network.

Tariff reform provides incentives for storage deployment across the network

Over the coming years we expect to see continuing growth in the number of customers investing in storage that is connected to the network. This investment may be made via a number of different commercial frameworks that could include direct investment, power purchase agreements, lease agreements and new models that are likely to evolve over time.

There is already evidence that many service providers are attempting to compete in this market. We expect that the dominant model will be for storage on our network to be owned and or operated by customers or their agents.

Network tariff reform including the proposed introduction of demand tariffs, provides customers with clear signals of the costs of using the network at different times and incentives to reduce peak demand based on the long-run marginal cost of investment in capacity across the network.

Demand tariffs are designed to benefit customers in two ways. In the short-term, they will deliver financial benefits through lower network charges to customers able to shift individual demand away from network peaks, including by investing in storage. In the long-term, demand tariffs will reduce the overall costs of network supply for all customers by reducing the requirement to invest in new capacity that is very rarely required.

Storage must be classified as Standard Control Service to deliver network services

In future networks may seek to contract with customers in specific locations where additional services or network support is required for the provision of services from their owned storage devices. There should be no compulsion on either side to enter into an arrangement. Customers can choose to sell services to the network if the benefit exceeds their costs and equally the network can choose to purchase if the costs and value of the service provided (including level of control) is less than the alternatives.

For the network to be able to contract for these services the regulatory framework must allow the treatment of cost for the procurement of storage or the services from storage to be treated as standard control.

Sharing benefits reduces costs for all customers

Where a customer contracts with the network for the provision of services from a battery that they own or where the network owns the battery the benefits are shared between network and the customer. This reduces the cost of investment in the network assets or network support and reduces the cost of investing in storage for the customer. This sharing of benefits is a win-win for both participants.

The shared asset guidelines provide an appropriate framework for allocating costs and benefits under this scenario.

Network control of storage can deliver real customer and network benefits

Network control of storage does not preclude the use of storage delivering significant benefits to individual customers. In our trial, the units have been configured to operate in the customers' interest by maximising the self-consumption from solar panels as the default mode of operation. Under a pre-defined set of criteria and conditions the battery can be operated by the network to ensure capacity to

deal with a number of network issues. Participants in our trial have entered into retail agreements that remove the risk of customers being disadvantaged by the network operation of the battery. There are many commercial models that could be developed between networks and customers to ensure that the customers are appropriately compensated through their contractual agreements for the times when the network uses the storage for its purposes.

We do not believe that the AEMC recommendation to prohibit the control of storage by networks is appropriate or justified. This has the potential limit the ability of networks to employ storage as an alternative to traditional network investment.

Barriers to the use of behind-the-meter and competitive assets to provide network services are unjustified

The Draft Report recommends that Networks should be prohibited from investing in storage behind the meter on the basis that this is a competitive market. We do not agree that networks should by default be prohibited from investing in any assets that can be provided competitively. This represents a substantial change from historic practice where networks have used load control on hot water and other assets behind the meter to support network operation in return for a reduced charge to the customer. The operation of these load control assets and services could be classified as competitive as the services could be provided competitively by other market participants such as retailers or other services providers to help customer reduce overall energy consumption or achieve other objectives. A simple prohibition on the use of competitive assets to provide network service is therefore not justified and would have significant implication for customers.

We would encourage the AEMC to reconsider this recommendation.

Barriers to network participation in storage deployment are unjustified

As the costs of storage reduce over time there are likely to be small pockets on the network where the use of storage by networks for short periods of time could provide network benefits and be a lower cost solution than the use of traditional network augmentation or control solutions. The AEMC has noted in the draft report that:

> *"…, as the usage of energy storage becomes more commonplace, the AER may consider storage at the network and behind-the-meter level when evaluating network businesses' expenditure forecasts. The AER could challenge a network businesses' proposed expenditure if it was simply continuing to prose traditional investment programmes without consideration of the alternatives."*

In these cases it may make sense for a network to contract with a customer for the provision of a battery behind the meter. The network may own the battery with a contribution from the customer for the benefit that the customer receives through the use of the battery when it is not required for network support.

The AEMC has recommended that networks be prohibited from this prudent and market based investment without any appropriate justification or assessment of the cost and benefits of different regulatory approaches. We also note that this is also in conflict with the recent COAG energy council stress testing of regulatory frameworks work that identified risks associated with networks not having appropriate incentives or confidence to participate in the use of new technologies.

Ring fencing obligations should be balanced, proportional and supported by robust cost benefit analysis

The AEMC has proposed the introduction of stringent ring fencing requirements as part of the draft

report. We note that the AER will be undertaking a review of the ring fencing guidelines during 2016. In undertaking this review we expect that the AER will follow the COAG Best Practice Regulation Guide, including analysis of the costs and benefits of different regulatory approaches and consideration of the significant ring fencing requirements that already exist within the regulatory framework including:

- Service categorisation to distinguish between competitive, potentially competitive and monopoly services
- Cost allocation provisions to ensure that costs are properly allocated to each different service category
- Related party provisions to ensure that a network company cannot favour a related party in procuring competitive services (such as vegetation management)
- Shared asset provisions to ensure that customers of the regulated business enjoy a cost reduction if regulated assets are used to provide unregulated (competitive) services
- Distribution licence provisions on information sharing.

AEMC recommendations for increased regulation are inconsistent with regulatory best practice

We are concerned that many of the recommendations of the AEMC for increased regulation are inconsistent with the regulatory best practice set out in the [COAG Best Practice Regulation Guidelines].

In particular we do not be believe that the AEMC has sufficiently documented a case for action, considered a range of possible regulatory approaches including a robust analysis of the costs and benefits of each approach, or selected an appropriate course of action. We also concerned that where recommendations are made on increased regulation these are proposed to be enduring rather than reviewed as the markets develop.

We encourage the AEMC to consider the issues raised in this submission to ensure that the market for storage is allowed to develop with the minimal level of regulatory intervention to ensure the best outcomes for all customer.

We look forward to continuing to engage with the AEMC as it progresses this important report. If you have any questions or would like to discuss further any of the points raised in our submission please contact me via email (kiera.poustie@ue.com.au) or on (03) 8846 9401.

Kind Regards,

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