



1/02/2019

Mr Owen Pascoe
Australian Energy Market Commission
Level 6
201 Elizabeth Street
Sydney NSW 2000

Dear Mr Pascoe,

Response to Regulatory Sandbox Arrangements Consultation Paper

Mondo welcomes the opportunity to participate in this review. If an appropriate framework is put in place, Mondo considers that regulatory sandbox arrangements could bring substantial benefits to consumers by facilitating innovation during this period of energy market transition. The consultation paper relates to the trialling of innovative practice in market and customer facing sectors as well as the regulated networks sector and therefore has broad industry interest. Accordingly this submission represents the interest of Mondo as an energy services company of AusNet Services, Mondo's parent company and owner of Victorian electricity transmission, distribution and gas networks.

There is a need to facilitate innovation at this time. An increasing number of customers are investing in new technologies and expect that this will lead to lower energy costs. New technology will enable energy to be delivered to customers in new ways, while also allowing customers to provide services back to the market – this may involve new market models and structures. Innovation is key to maximising the value of these developments across the whole supply chain. Proof-of-concept trials enabled by regulatory sandbox arrangements—where new technologies, products and market models can be tested and validated—could play an important role in accelerating the energy market transition.

Regulatory barriers often prevent innovative ideas proceeding to trials, or the trial lacks regulatory and market mechanisms needed to create a commercially compelling demonstration. This is another reason for the relatively low levels of innovation. In these cases, proof-of-concept trials facilitated by a regulatory sandbox could be a quick way to test whether particular business models are viable and provide customer benefits, and therefore whether rule changes to remove these barriers would be beneficial. While the AER is able to issue letters of no action on a case-by-case basis, regulatory sandboxes have the additional advantage of promoting stakeholder confidence as the nature of the temporary exemption and the rationale for this will be clear and transparent. The sandbox concept also has the potential to improve the legitimacy for the AER, and the other institutions, to engage with the trials.

Bright future.

In setting up the regulatory sandbox framework it is important to balance the need for a robust and transparent assessment process with the need for the framework to support quick decision making and provide flexibility, to accommodate the nature of innovation projects. The framework needs to support innovation, rather than add undue administrative complexity.

In addition, proof-of-concept trials are likely to be relatively small scale and consumer impacts can be closely monitored. This means the risks associated with such trials are relatively low – the framework that is put in place should be designed with this in mind.

Relevant Proof-of-Concept Trials

Proof-of-concept trials that Mondo believes are currently limited by the regulatory framework include community micro-grids, community peer-to-peer trading, development and testing of the marketplace models currently being presented via the Open Energy Networks consultation process, the use of batteries to provide market services, and the development of hydrogen production to provide a source of energy (for both gas distribution and generation). While there is a great deal of interest in these models, there are a number of regulatory impediments which limit our ability to demonstrate the benefits, and commercial viability of these new models. There are several layers to the regulatory restrictions, including network pricing, market settlement arrangements, and the registration and compliance requirements of aggregators.

In relation to network pricing, while the Rules currently allow for a trial tariff to be included in a network's annual pricing proposal, the timelines are restrictive – the AER must be notified of this in August and, if approved, the tariff can only apply from the following January. Many of the proposed peer-to-peer trials are unlikely to generate any substantial benefit to the network in terms of reducing future network investment and so the case for a network to contribute a relevant cost reflective tariff for the trial is relatively weak. However, a trial located in a constrained part of the network could yield significant benefits and learnings across the supply chain about customer behaviour in response to network tariffs. In these circumstances, a regulatory sandbox framework would assist to provide greater flexibility around the implementation timeline in conjunction with a 3rd party led initiative, and to provide transparency over why particular trials are chosen to proceed.

Other regulatory restrictions include the registration of aggregators and compliance requirements. Mondo believes that there should be a separate registration category for Aggregators, and that compliance and prudential requirements should be consistent with the risk exposure and volume of load held by the Aggregator. Not all of these impediments are within the National Electricity Rules – some relate to jurisdictional licencing frameworks for example. The formality of a regulatory sandbox for certain trials could be taken into account by jurisdictional regulators in temporarily relaxing licencing requirements to enable these trials to occur. Currently, unless a new entrant has a retail licence, they are impeded from effectively connecting with end customers, limiting their scope to provide potentially beneficial services.

Access to Guidance for New Entrants

Mondo considers that improved access to detailed guidance for new market entrants is warranted. Particular areas where guidance would be of value include registration and licencing, metering, settlement processes and prudential obligations.

The provision of this guidance should be funded by the party seeking, and therefore benefiting from, the advice.

Potential Design of Formal Regulatory Sandbox Arrangements

The objective of formal regulatory sandbox arrangements should be to facilitate proof-of-concept trials to occur, where the concept being tested has potential to result in substantial customer benefits. These benefits should be broadly defined and could include reduced costs, improved reliability and/or energy security, or the ability to generate more value from new technologies, including solar PV, batteries or electric vehicles. The potential benefits may be realised over the medium- or longer-term.

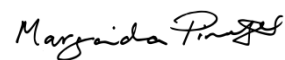
The success of regulatory sandbox arrangements could be measured based on a range of metrics. These could include the number of applications received for projects to be subject to these arrangements. The confidence of stakeholders, and in particular consumer advocates, in the robustness and transparency of these arrangements is also an important metric, as the regulatory framework operates in the long run interests of customers.

In designing criteria for accessing these arrangements, we consider that the scope of application of the sandboxes should be very broad. However, on an annual basis priority areas of innovation that are likely to have broader benefits across the energy sector could be publically identified, taking into account the views of groups including the ESB, AEMO, ARENA, the AER, ECA and the ENA. For example, the integration of distributed energy resources and standalone power systems may be two areas where innovation is currently likely to lead to customer benefits.

In choosing between similar trials, some judgement may be required. The AEMC, AEMO and the AER could agree on the trials that should occur under these arrangements, with input from other parties including the ECA, ARENA, the CEFC and the ENA.

Aside from the regulatory arrangements that are intended to directly protect the security and operation of the network, all other parts of the National Electricity Rules should be in scope. In some circumstances it may be necessary for the participant to seek regulatory exemptions from other regulatory bodies, such as those administering jurisdictional licencing. To prevent these trials from falling at the last hurdle, it would be helpful if jurisdictional licencing bodies could have a formal role in providing advice and establishing whether their own regulatory requirements could be relaxed to enable the trial to proceed.

Mondo looks forward to engaging in the next steps of this review. Please feel free to contact me on 03 9695 6061 with any questions in relation to this submission.



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