11/07/2019

Anthony Bell
Australian Energy Market Commission (AEMC)
Level 6, 201 Elizabeth Street
NSW,2000

Via electronic lodgement

Dear Anthony,

Re - Demand management incentive scheme and innovation allowance for TNSPs: ERC0266

Mondo appreciates the opportunity to comment on the AEMC's demand management incentive scheme (DMIS) and innovation allowance (DMIA) for TNSPs consultation paper.

Mondo provides a variety of contracted transmission and distribution services, including grid connections for new generators, battery energy storage systems and aggregation of distributed energy resources.

The current rapid rate of transition which is being experienced in the energy sector has increased the need for industry participants to be innovative in their approach to problem solving. In the past, it was feasible for industry participants to take a cautious approach to change, and carefully examine any past examples as learning opportunities. The current paradigm however means that there are few if any past examples to provide learning opportunities, and participants are therefore required to take additional risks in implementing innovative solutions to new problems.

Solving new problems can be particularly challenging for regulated businesses such as TNSPs, which have very limited opportunity to take on commercial risks. As noted in the rule change proposal, although TNSPs are able to pass on their costs under the existing Rules, this fails to provide a sufficient incentive to seek out non-network solutions. Furthermore, the existing TNSP incentives provided through the Service Target Performance Incentive Scheme (STPIS) relate only to network options, and therefore are not able to be utilised for non-network alternatives.

In consideration of the merits of this Rule change proposal, it is worth considering the types of projects that distribution networks have undertaken under the existing DMIS and DMIA. In examining the AER Compliance Reports[1], it is apparent that the total DMIA allowance across all distribution networks for the period 2014/15 – 2018/19 was $36.8m. The two largest categories comprised projects associated with residential storage and tariff studies. These projects may be more relevant to distribution rather than transmission networks as they are more closely associated with end customers and their tariff structures.

In addition to the above two categories, some of the other main projects that distribution businesses have pursued include micro grids, grid storage, research, virtual power plants, power factor correction and solar forecasting. These are all matters that are very relevant to transmission networks, and could therefore provide benefit through the provision of additional innovation and funding. It could also be argued that due to transmission network projects typically being larger in scope than distribution, that the transmission projects may enjoy improved economies of scale.

To emphasise the relevance of innovation incentives for TNSPs, it is instructive to consider some of the existing project areas that TNSPs are tackling. For example, the energy transformation is changing the technology and location of generators, and is also imposing much shorter timeframes for new generator projects to be realised. This is leading to TNSPs having to respond to changing demands on the transmission network in shorter timeframes. Clearly, the traditional methods of planning and building network infrastructure will not always be suitable in these circumstances.

TNSPs are currently exploring numerous options for how best to respond to the energy transformation challenges. For example, TNSPs are already exploring options for utilising grid connected storage as a means of avoiding load shedding in the event of overloads, thereby delaying network augmentation. TNSPs are also keen to examine how battery storage can be utilised to provide load management services, as well as their potential to contribute system strength and frequency control capability.

Another example of TNSP interest is in seeking to use various load management techniques to optimise the utilisation of existing interconnector capability. If successful, this would significantly improve NEM efficiency and reliability, whilst avoiding the need for costly and potentially disruptive network solutions.

Question 1 of the consultation paper asks whether the rule change proposal is seeking to address an emerging or future issue. We believe that the issues and challenges set out above make it clear that these issues are imposing on the NEM right now and in some cases, in quite a dramatic fashion.

Mondo supports the proposed rule changes to extend the existing DMIS and DMIA, which are currently available for distribution network service providers, to be also available for TNSPs. Mondo also supports the proposed arrangement that would provide the AER with discretion in deciding whether to apply the DMIS and DMIA, and would allow the incentives/allowance under the schemes to vary by TNSP.

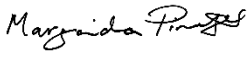
Mondo is mindful that the incentive framework for NSPs is quite complex, and that extending the existing incentives to also be available to TNSPs would create additional complexity to some extent. Although Mondo believes that this complexity is manageable, there would be benefit in conducting a broader

[1] See AER Demand Management Incentive Allowance compliance reports available at https://www.aer.gov.au/networks-pipelines/compliance-reporting

review of the overall incentives and arrangements for networks as part of the AEMC's Economic Regulatory Framework review.

Mondo hope that the comments contained in this submission are of assistance to the AEMC in its deliberations on this consultation. Please do not hesitate to contact me either by email or on 03 9695 6061 if you have any further inquiries.

Yours sincerely



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