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James King
Senior Adviser
Australian Energy Market Commission
Email: james.king@aemc.gov.au

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Mr King

Consultation Paper: Improving the cost recovery for non-network options (NNOs)

Ausgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Consultation Paper: Improving the cost recovery for NNOs (Consultation Paper)*.

To maintain a reliable and affordable service for our customers, we consider NNOs as part of our investment decision making. Opportunities at the distribution network level include demand management programs, grid and community scale batteries, and the optimisation of electric vehicle charging and other behind-the-meter assets. NNOs can lead to better outcomes for customers where they defer or avoid traditional 'poles and wire' investment. They also inject more flexibility into the grid, enabling the Distribution Service Operator model.

Equal treatment of NNOs across transmission and distribution

NNOs offer benefits across distribution and transmission. However, different cost recovery mechanisms apply depending on where an NNO is integrated. We strongly encourage the AEMC to address this mismatch by:

- Establishing the same NNO 'pass through' mechanism for distribution networks that currently applies to transmission businesses; and
- Implementing the rule change proponent's (Transgrid) proposed improvements to improve the certainty of cost recovery and timing.

These changes would require the Australian Energy Regulator (AER) to no longer consider NNO costs as part of ongoing operating expenditure (**opex**) for distribution networks. Instead, NNOs would form part of a separate cost recovery framework with scope for NNO costs to be approved *within* a regulatory control period, as and when a non-network solution emerges and after a Regulatory Investment Test for Distribution has found an NNO to be the most efficient solution.

We consider that it would be more efficient from a regulatory perspective, and for market participants, for there to be a single regime to manage NNOs. Having different arrangements across transmission and distribution means demand response participants would be dealing with, through the network business, different timing and certainty levels when contracting for demand response. These participants would expect their commercial outcomes to be driven by the economics of their services at the potential locations, rather than regulatory drivers. It seems reasonable that the basis of recovery for NNO costs should be consistent between distribution and transmission networks.

Challenges under the current NNO cost recovery regime for distribution networks

By treating NNOs as part of ongoing opex, distribution networks are required to develop a 5-year forecast for non-network solutions that fits into the standard 'base-step-trend' approach. This leads to

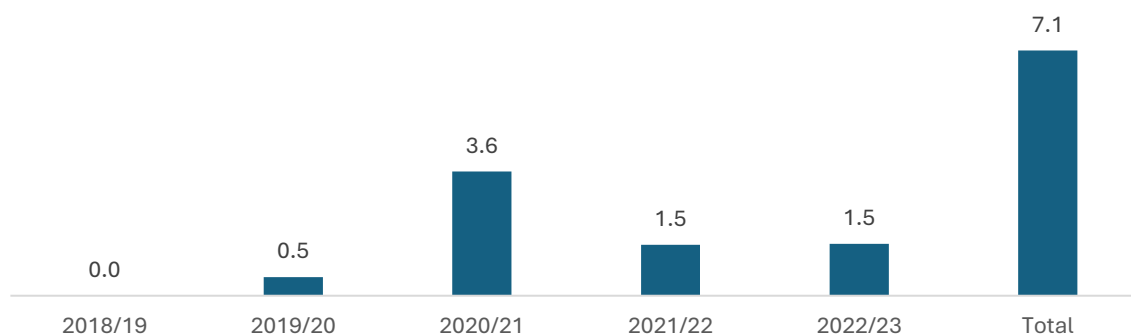
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forecasting challenges about NNOs that may be many years away from being implemented. Our 2024-29 regulatory proposal noted the current challenges:¹

Due to the complexity and interconnected nature of Ausgrid's 11kV network, the exact timing, scale and cost of a preferred network solution to address an identified need is unclear until a detailed assessment is carried out by Ausgrid network planners, **which is typically undertaken within 1-2 years prior to the constraint**. Accordingly... the assessment of non-network potential for [high voltage augmentation expenditure]... **cannot be carried out on a project-by-project basis** (emphasis added).

The constraints on distribution networks in implementing NNO solutions is evident from the aggregated expenditure incurred in furtherance of the Demand Management Incentive Scheme (DMIS). This is set out below in Figure 1. It shows that across the National Electricity Market distribution networks, in aggregate, have only incurred \$7.1m in DMIS expenditure since the scheme was introduced.

Figure 1: Aggregated DMIS expenditure across all distribution networks (\$m, nominal)



Source: Annual RINs accessed via Rosetta: <https://rindata.rosettaanalytics.com.au>

We support each of the proposed amendments to the current NNO cost recovery for transmission, as outlined in the Consultation Paper. This includes the introduction of a pre-approval process that would allow a network business (transmission or distribution) to seek AER approval of NNO expenditure before entering into an agreement with an NNO provider. Likewise, we support the proposed changes to improve cost recovery timing, as set out in the Consultation Paper.

We look forward to continued engagement with the AEMC given the significant benefits that can be unlocked through NNO solutions at the transmission and distribution network level. Please contact Shannon Moffitt, Regulatory Strategy Manager, on 0468616512 or shannon.moffitt@ausgrid.com.au if you would like to discuss this submission.

Regards,

Fiona McAnally
Head of Regulation

¹ Ausgrid, [Non-Network solutions](#), January 2023, p. 4-5.