

9 November 2015

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference: SEA0002

Lodged electronically: www.aemc.gov.au

Dear Mr Pierce,

RE: Integration of Energy Storage: Regulatory Implications

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Australian Energy Market Commission's (AEMC) Discussion Paper Integration of Energy Storage: Regulatory Implications (**the Paper**).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA welcomes the discussion points and views presented in the Paper. Energy storage is one of the main elements of the new products and services that are likely to enter the energy market over the next decade. It is critical that appropriate regulatory structures are identified and implemented before storage devices become widespread in order to provide certainty to consumers, providers, installers and the market in general.

Scope

In order to ensure the regulatory framework is comprehensive, the ERAA supports the AEMC scope including the National Electricity Law (NEL) and the National Electricity Rules (NER), however the AEMC should not feel constrained from providing recommendations and views on changes that might need to occur to the National Energy Consumer Framework and jurisdictional instruments. The ERAA believes it is important that there is a consistent national approach to this emerging technology, and if there are various regulatory elements that need to be coordinated then this should be clearly identified.

Connection

Energy storage has the potential to be installed at different points in the electricity supply chain, for different purposes and in different sizes. As a result there may well be competing interests and priorities from different market participants as to how energy storage is deployed and operated. To ensure there is no anti-competitive risk and to support operational efficiency, the ERAA supports the development and adoption of nationally-consistent industry standard covering connection assessment and approval processes. This approach will provide transparency and clarity for participants, and should include a mechanism for independent appeal and assessment in the event a dispute cannot be initially



resolved between the parties. For consumers defined as small customers, this could be via the existing energy ombudsmen schemes that operate in jurisdictions.

Authorisation

There will be many different models and approaches for the roll-out of storage technology. For consumers that just want to have a storage device to assist with managing their overall energy consumption and are not interested in a service or facility that allows for export to the grid, the storage device is just like any other electrical appliance and the ERAA does not at this stage see a compelling reason warranting protections in addition to the Australian Consumer Law.

Network ring fencing

The ERAA supports the AEMC's overall discussion of the role of network businesses in the provision and use of storage devices. Where networks seek to provide and/or control storage behind the meter, this is an activity that is competitive. If network businesses wish to operate in this competitive market, then it should be done via a separate, fully ring-fenced business that does not share information, data or resources with the regulated business.

Similarly, network-scale storage is also a competitive activity. The ERAA submits that network-scale storage has no more natural monopoly characteristics than peaking generation located close to loads. In both cases energy is provided at times of high prices, and network benefits are obtained because additional network capacity to bring the energy from distant sources is not needed. If regulated networks are allowed to own storage then this is analogous to allowing them to own generation. Neither are in the long term interests of consumers because they unnecessarily transfer the investment risk from the project investor to the consumer.

The view of the ERAA is that as with other network operation investment decisions, the network business should be exploring all alternative options and that would include competitive provision of storage services to meet the identified operational requirement. If a network business wishes to develop skills and expertise in providing these storage service solutions, again the ERAA is of the view that this should be done via a properly ring-fenced business entity that seeks to compete with other service providers that offer storage services at the grid level.

The ERAA supports the view of the AEMC that strong enforcement and compliance obligations need to be in place for ring-fenced network entities involved in the provision of energy storage services. The ERAA's view is that these obligations are best carried out by the Australian Energy Regulator (AER). The need for ring-fenced network entities and strong enforcement and compliance activity would address the challenges of ensuring competitive neutrality and avoiding cross-subsidisation of costs, confirming that commercially-advantageous information and data is not acquired and shared inappropriately, and that competition for the provision of infrastructure and services are not restricted.

In particular, regulated networks should be required to follow open and transparent competitive contract processes when seeking storage services, to ensure that third parties and the network's ring-fenced competitive businesses are treated equally. It is insufficient to rely on the view that new requirements to run open and transparent competitive contract processes are not needed, because the existing rules address networks trading with related parties. The scalable nature of new storage technologies (compared with pumped hydro storage or peaking generation located close to loads (which also has network benefits), for example) gives regulated networks new opportunities to obtain additional benefits from trading with related parties on projects that are individually small but that when aggregated have a measurable impact on network tariffs.

Conclusion

In summary, the ERAA supports the view that storage is a contestable service and there is an opportunity while the technology is still at its early stages to ensure there is an overall level playing field for the provision and use of energy storage solutions. Energy storage development and innovation is best done through a market-led approach that encourages innovative solutions and deployment strategies. If a network business looks at energy storage as a solution to meet identified network constraints or investment requirements, this should occur through regulatory mechanisms that continue to seek least cost solutions provided by the competitive market wherever possible.

Like generation that provides network support, storage is a contestable service and as such it is not appropriate for regulated networks to own storage infrastructure. If network support provided by storage is the best solution to a network need, this should be provided by an open and transparent competitive contract process. In order to ensure a level playing field, ring-fencing arrangements are required and appropriate compliance and enforcement by the AER will need to occur.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alex Fraser', with a horizontal line underneath.

Alex Fraser
Interim CEO
Energy Retailers Association of Australia