AER reference: AER212772

1 September 2025

Energy Innovation Toolkit Team
Australian Energy Regulator
Email submission: regulatorysandbox@aer.gov.au

Dear Colleagues

Re: Ausgrid Community Power Network Regulatory Sandbox Application

We write to raise concerns regarding Ausgrid's Community Power Network regulatory sandbox application lodged with the Australian Energy Regulator on 12 May 2025.

Compliance Quarter is a consultancy business working with energy sellers and private network owner and operators. This submission does not necessarily reflect the views or positions of our clients.

While supporting innovation in energy distribution, we identify fundamental issues with cost allocation, environmental benefit accounting, competitive impacts, and consumer protection that require careful consideration before approval. Our recommendation, given the implications of what is proposed, is to reject the application.

1. Cost Allocation and Consumer Impact

A primary consideration by the Australian Energy Regulator will be the impact of the proposal on the price paid by consumers for electricity supply. as mandated by the National Electricity Objective. The proposal requires all Ausgrid customers, approximately 1.7 million households and businesses, to apparently contribute $72.8 million through network tariffs to generate benefits primarily for 32,000 pilot area customers. A cost of $72.8 million represents a cost of approximately $2,275 funded per pilot customer, while those same customers are not guaranteed a dividend (estimated to be $150-200 per customer per year). The remaining 1.67 million Ausgrid customers would pay approximately $43 each with no direct benefits beyond theoretical future network savings.

We note that to the extent that there is misunderstanding of the financial impact of the pilot (with reference to the figure of $0.97 per customer per annum over an unspecified period in the Issues Paper), then clarification should be provided. In any event, if this pilot were deemed successful and expanded across all of Ausgrid's network area, the financial implications would be substantial.

Under the current funding model where benefits flow only to local communities while costs are socialised across all customers, this would create an unsustainable burden on electricity consumers disproportionately felt by vulnerable customers. Even if every customer eventually resided within a Community Power Network zone, the transition period would see early adopter areas receiving benefits funded by those still waiting for implementation, creating ongoing inequity.

The proposal guarantees costs to all consumers through network tariff increases while benefits remain highly uncertain. Customer dividends depend entirely on volatile wholesale electricity prices, with Ausgrid's own sensitivity analysis showing dividends could be eliminated if daily peak prices fall below $117/MW. The broader network benefits claimed, such as deferred transmission investment and reduced augmentation, are theoretical and may not materialise for decades, if at all. Meanwhile, implementation risks including retailer participation, battery installation rates, and market response to solar incentives could prevent benefit realisation entirely.

2. Environmental Benefit Accounting Concerns

The application claims $42.6 million in emissions reduction benefits to justify cost recovery from all customers. This claim warrants careful scrutiny as it appears to assign a monetary benefit to an environment outcome whose value is already realised as a result of environmental certificate schemes.

The 70MW of solar installations proposed will generate Small-scale Technology Certificates and potentially Large-scale Generation Certificates worth an estimated $10-15 million under the Renewable Energy Target scheme. These certificates are already paid for by all electricity consumers through their bills and they negate any additional environmental benefit as they are traded and eventually surrendered by retailers to offset emissions. If environmental certificates will be created, traded and surrendered in the usual way, then we cannot see how $42.6 million in emissions reduction benefits can be claimed.

Furthermore, Ausgrid's own analysis demonstrates that rooftop solar is already "commercially compelling" at current prices and that their proposed feed-in tariffs would make solar "even more" attractive. This suggests the solar installations would likely occur regardless of the pilot, making the claimed emissions benefits non-additional. The proposal appears to be accelerating deployment that would happen anyway rather than creating genuinely new renewable generation that wouldn't otherwise exist.

The mechanism of converting theoretical social benefits, valued using the AER's Value of Emissions Reduction metric, into real charges on customer bills sets a concerning precedent. If network businesses can claim the monetary value of emissions reductions from assets they don't own and activities they merely facilitate, then charge all customers on the basis of these theoretical benefits, it opens the door to unlimited cost recovery justified by environmental claims. This is particularly problematic when the same emissions reductions are already being monetised through other mechanisms.

We also note that Ausgrid has implemented and is collecting the solar tax from individuals who have installed and are operating small scale solar installations and, in this context, any purported environmental objectives of their trial need to be critically reviewed.

3. Competition and Market Distortion

The proposal positions Ausgrid as a direct participant in markets traditionally served by competitive providers, raising significant concerns about market distortion and competitive neutrality. Ausgrid would own and operate 130MWh of battery storage, directly competing with virtual power plant operators and aggregators who must bear market risks without guaranteed returns. The company would engage in wholesale energy trading and ancillary service provision, markets where they would compete against merchant generators and retailers while enjoying the security of regulated returns.

The "solar owner of last resort" mechanism could see Ausgrid entering the solar installation market if commercial providers don't meet their targets. This creates a perverse incentive where commercial providers might deliberately under-invest, knowing Ausgrid will step in with regulated funding to complete the installations. Ausgrid would leverage significant advantages unavailable to competitors, including access to detailed network data and customer information that competitors cannot obtain, the ability to recover costs through regulated charges regardless of performance, guaranteed returns even if the trading strategy

fails, unique positioning to determine optimal battery locations, and control over network planning decisions that affect competitor connection costs.

These advantages could fundamentally distort competitive markets and discourage private investment. Why would a private company invest in batteries or aggregation services when competing against an entity with guaranteed returns and superior information? The proposal may crowd out the very innovation it claims to support, creating dependency on network operator coordination rather than fostering competitive market solutions.

4. Expansion of the Regulated Asset Base

The proposal effectively uses innovation as justification for expanding Ausgrid's regulated asset base. The addition of $12.4 million directly to the RAB generates guaranteed returns for shareholders regardless of pilot success. The $17.8 million in Distribution System Operator funding provides cost recovery plus regulated returns. The battery assets create ongoing revenue streams beyond the pilot period through the 2030-34 regulatory determination and beyond.

This structure ensures Ausgrid shareholders receive guaranteed returns while customer benefits remain contingent on pilot success and market conditions. If approved, this creates a precedent whereby network businesses can expand into competitive markets under the protection of regulated returns, claim theoretical social benefits to justify customer charges, and use innovation trials as vehicles for RAB expansion without bearing genuine commercial risk.

5. Required Reporting and Transparency Measures

Should the AER decide to approve this pilot despite these concerns, we strongly recommend implementing comprehensive reporting requirements to ensure transparency and protect consumer interests. These reporting requirements should be mandatory, with failure to comply triggering immediate review of the pilot's continuation.

Ausgrid should be required to report quarterly on actual costs incurred versus budget, broken down by category including batteries, solar, DSO operations, and project delivery. This reporting must include detailed disclosure of all returns accruing to Ausgrid shareholders, separated between returns on the RAB portion, returns on pilot assets, and any indirect benefits. The actual wholesale market revenues generated, trading profits

achieved, and losses incurred should be transparently reported, not netted off against each other.

Customer benefit reporting should track the actual dividend pool accumulated each quarter, the number of customers eligible for dividends, the methodology used for distribution, and actual payments made to customers versus projections. Any changes to the equitable distribution methodology should require AER approval with public consultation. The actual feed-in tariffs paid for surplus solar and the volume of solar energy purchased should be reported against projections.

Environmental benefit verification requires Ausgrid to report actual solar installed versus projections, with clear attribution of what is genuinely additional versus what would have occurred anyway. The actual emissions reductions achieved should be calculated and compared to the $42.6 million claim. Critically, Ausgrid should be required to identify all other subsidies and certificates generated by the same solar installations, preventing multiple counting of the same benefit.

Competition impact monitoring should track the number of commercial batteries installed in pilot areas by third parties, any reduction in private investment compared to comparable areas, the market share Ausgrid captures in energy trading within pilot zones, and evidence of whether private innovation is being crowded out or encouraged.

Financial reconciliation requirements should include annual true-ups where if actual shareholder returns exceed customer dividends, the excess must be returned to the dividend pool. If the dividend pool remains negative after two years, triggered review of pilot continuation should occur. Clear documentation of all costs allocated to the pilot versus business-as-usual operations must be maintained, with independent auditing of cost allocation and benefit distribution annually.

6. Alternative Approaches

Rather than proceeding with the current proposal, we encourage the AER to consider alternative models that better align costs with benefits and preserve competitive market dynamics. A voluntary opt-in model where customers who wish to participate pay a premium for Community Power Network benefits would ensure those who value the service pay for it. Competitive tendering for battery ownership and operation would maintain market

competition while achieving network benefits. A smaller-scale trial limited to one zone substation would reduce risk and cost while still generating learnings.

If the AER believes some form of this pilot should proceed, we recommend substantial modifications including removing the $42.6 million emissions benefits claim from customer funding, requiring pilot area customers to fund a higher % of costs since they receive the direct benefits, implementing performance-based returns where Ausgrid shareholders only profit if customer dividends are delivered, and establishing clear exit triggers if benefits don't materialise within specified timeframes.

7. Conclusion

While innovation in the energy sector is important, this proposal raises fundamental concerns about cost allocation, competition, and consumer protection that cannot be overlooked. The mechanism of claiming theoretical environmental benefits to justify real customer charges, particularly if these benefits are already monetised through existing schemes, sets a dangerous precedent for future cost recovery by network businesses.

The proposal appears structured to guarantee benefits for Ausgrid through RAB expansion and regulated returns, and for pilot area customers through dividends, while imposing certain costs on all customers for uncertain broader benefits. This asymmetry of risk and reward is inappropriate for a regulated monopoly service provider with obligations to act in the long-term interests of all consumers.

The potential for this model to be expanded across Ausgrid's entire network area would impose potentially billions in costs on consumers while fundamentally distorting competitive markets. The precedents set by approving this proposal could reshape network regulation for years to come, potentially opening the door to unlimited cost recovery justified by theoretical social benefits.

We urge the AER to carefully consider these concerns and either reject the application in its current form or require the substantial modifications and reporting requirements outlined above. The long-term interests of consumers require that innovation trials genuinely benefit all customers who fund them, rather than creating sophisticated mechanisms for cost socialisation while concentrating benefits among select groups and shareholders.

We remain available to provide additional information or clarification on any of these concerns.