19 September 2025

Ms Stephanie Jolly
Executive General Manager, Consumer, Policy and Markets Division
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically: RegulatorySandbox@aer.gov.au

Dear Ms Jolly,

Ausgrid Community Power Network Regulatory Sandboxing application

☐Choose an item.

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to provide feedback on the Ausgrid Community Power Networks (CPN) Sandboxing proposal. In consulting on the Ausgrid CPN proposal, we believe that the AER is by proxy consulting on the future direction and structure of the energy market. The AER ought to be doing this while taking a broader view of the policy direction regarding CER and integrated market design.

We understand that the AER is keen to engage with the first request for Sandboxing within its innovation toolkit. However:

- Ausgrid's proposal is not innovative. There are existing trials and in-market products which investigate different approaches to CER orchestration in the way proposed by Ausgrid. EnergyAustralia's Community Battery Ease is an example of such a product[1]. Approving this trial would confuse the intent and devalue the notion of Sandboxing as a means to encourage genuinely innovative proposals.

- We believe that the proposal poses material risks to customers and competition more broadly. Several aspects of the proposal are unclear, yet the AER must clearly understand what it is committing to. If it is approved, there appears to be no simple way to 'undo' the trial and this will have lasting impacts.

- A key element of the trial involves a 'spatial energy plan'. Overcoming information asymmetry and releasing valuable data on network hosting capacity is a key enabler for rapid CER uptake. This is currently the subject of the Integrated Distribution System Planning rule change proposal, which was identified in the AER's Low Voltage Network Visibility project. Lowering barriers to commercial uptake while also approving a fully network-owned solution sends

[1] Community Battery Ease - an electricity plan made possible by community batteries recently installed across NSW. These batteries store grid energy and excess solar energy within the community, making it easier to access energy stored in your neighbourhood.

mixed signals to the market, noting the scale and precedent that would be set by Ausgrid's proposed trial.

There is a genuine but limited role for DNSP ownership of CER infrastructure that is usually provided by a competitive market in areas where this competition has clearly and demonstrably failed. These are usually in areas with high cost to provision and or serve, and low return on investment. This market failure has not been established, and this last-resort service is not what the current trial aims to provide.

Ausgrid's proposal raises more fundamental issues with the regulatory framework. Rather than seeking a sandboxing waiver from various rule requirements, we consider this type of arrangement should be the product of the existing incentive and planning framework. We accept that innovative trials by their nature involve risks that are not always amenable to assessment under the NER, however Ausgrid's quantitative assessment does not identify any customer savings from network capex deferral (including at the transmission level) and misapplies the value of emissions reduction as a cashflow benefit that customers should pay for via capitalisation in the regulatory asset base. The novel elements of the proposal appear to focus on pricing incentives and rebates which appear to be within the scope of existing rules. Costs and market revenue opportunities associated with solar PV and batteries do not seem to be subject to excessive risk. The need to disapply capex incentives has not been established and the AER should consider this proposal from the lens of the Regulatory Investment Test.

The AER is required to assess whether and how any Regulatory Sandboxing proposal meets its overarching Regulatory Sandboxing Policy questions. In our view, the trial does not answer these.

- We do not believe the trial meets the criteria for an innovative ownership model.
- We consider that the rebate amount proposed by Ausgrid significantly undervalues the benefits Ausgrid would attain through such a trial, and so, does not provide a greater benefit to customers than existing arrangements.
- We believe that the trial is likely undermine:
    - Customer trust where customers are deprived of choice or the ability to opt out,
    - Social license to the energy transition, where the cost is borne by customers who do not directly benefit.

We discuss these issues, as well as a short assessment of the proposal against the AERs innovative trial principles, in the attached appendices.

If you would like to discuss our submission, please contact me on [redacted] or by email [redacted]

Regards

[redacted]

[redacted]

Appendix I: Overarching Sandboxing Policy Questions

This appendix provides our view of the proposal against the AER's Sandboxing Policy Questions outlined in its issues paper. However, we do not consider the application made by Ausgrid contains enough information, or is articulated clearly enough, for stakeholders or the AER to fully understand what is being proposed. This makes it difficult to establish whether the arrangements we have interpreted are in the long-term interests of consumers. We would caution the AER against approving something that simply appears innovative, rather than something of clear substance and merit, as it undermines credibility.

Does the trial establish innovative relationships which enable better access to, and deployment and orchestration of, CER?

We do not consider the trial to reflect a genuinely innovative model, considering what is being covered in existing trials including Ausgrid's own Project Edith.

- Project Edith is an 18-month trial led by Ausgrid, in partnership with EnergyAustralia. This project aimed to help unlock better Virtual Power Plants, allowing customers to maximise the value of their home energy assets, while benefiting the community by giving more homes access to clean energy, and allowing for smarter management of2 capacity.☐ It is both a dynamic pricing trial and a community power network.
- Energy Australia is rolling out our award-winning Community Battery Ease program to the Endeavour Energy network in New South Wales, installing 44 community batteries. In total, the batteries can support around 3,000 customers, providing them with affordable rates and locally stored energy. It means more people – whether they're renters, apartment dwellers or homeowners – can be part of the energy transition.3

These community battery programs encourage CER installation, are orchestrated to attain greater value, and that value is represented to the customer as a pricing benefit. These elements of Ausgrid's trial are therefore not innovative.

The remaining elements of the trial relate to cost allocation and pricing incentives. It is unclear how these mechanisms would interact with other proposed pricing items outlined within the application, and we consider the AER should require Ausgrid to set this out clearly and succinctly to establish that there is no cross-subsidization occurring at any point within the trial structure that would detriment non-trial area customers. It should also establish that all the funds that are paid into the Community Power Network (CPN) funding pool are genuinely generated through the trial, as we do not consider that this is the case.

Does the Sandboxing proposal value the benefits and deployment and orchestration of CER in a manner that provides greater benefit to customers?

The rebate amount proposed by Ausgrid appears to significantly undervalue the benefits customers would attain through such a trial. Customers willing to participate in our community battery programs receive at least $200 annually through an on-bill mechanism. Ausgrid states that its forecast dividend would range from $11 to $270, although whether any dividends are paid obviously depends on project revenues more than offsetting its costs.

2 Project Edith | RenewEconomy
3 Community Battery Ease

Neither the Ausgrid proposal nor AER's issues paper assess the counterfactual of retailer-led CER currently occurring in the market. In its inquiry into the National Energy Market 2025 report, the ACCC found that VPP participants receive lower electricity bills. Their analysis showed that VPP participants have lower bills as a result of lower grid use and higher solar feed-in tariffs, alongside the bill impact of VPP participation credits.4

Would the proposed model for access, deployment and orchestration of CER/DER build consumer trust and social licence for mass adoption and orchestration of CER/DER?

Ausgrid's application does not directly address social license. This is important given customers cannot opt out of the trial and cannot change distribution network service provider. We additionally believe that the trial could undermine social license to the energy transition more broadly because:

- The cost of the trial will be recovered through several mechanisms that are ultimately paid for by all Ausgrid's customers, and,
- The approach proposed would limit individual customers' capacity to install their own CER and increase the cost of doing so. This is particularly concerning if the trial 'greenlights' this Community Power Network approach across all Ausgrid's patch, as Ausgrid would be incentivized to limit as much as possible any other participant or individual from connecting CER within its network.

Customers would effectively be forced to participate in Ausgrid's 'Virtual Power Plant (VPP) Community Power Network, with no exit option (including to participate in in-market VPPs), and no capacity to determine whether participation is serving them as compared to other products and service offerings that may be available in the market.

We note additionally that once the assets are installed, it lends itself to continuation of the same commercial arrangement (even at the end of the trial). They also would still be paid for by someone, whether Ausgrid or the competitive market. The setup is difficult to unwind. We are aware that this issue of customers being unable to choose participation or not is a concern for Governments even within the competitive market, where customers are able to choose VPP participation and exit if it does not suit their needs.

4ACCC Inquiry into the National Electricity Market - July 2025 report

Appendix II: Assessment of the proposal against innovative trial principles (s. 7B of the National Electricity Law and NER regulation 5B, NERR regulation 9A)

Does the trial develop new or materially improved approaches to the use, supply or demand for electricity?	The CPN model does not provide a new or materially improved approach to the use, supply or demand for electricity and/or customer retail services, given that partnerships which could deliver this project design currently operate within the market. There is a lack of clarity regarding the funding and other accounting arrangements which are not customer rebates relating to the trial which, in our interpretation, result in wealth transfer from retailers to Ausgrid (some of which is paid through the CPN to customers) through overpayments made by retailers not being refunded.
Does the proposal contribute to achieving the NEO?	No, for the following reasons: • The trial proposes Ausgrid ownership and operation of CER assets, which could be more efficiently delivered by the competitive market. • The funding model relies on cross-subsidization and overpayments by retailers, • Customers cannot opt out of the trial and cannot choose alternative providers, which undermines market competition. • The trial would limit individual customers' ability to install their own CER, reducing consumer autonomy. • The rebate structure is insufficient compared to existing competitive offerings (e.g., EnergyAustralia's community battery programs). • Other benefits to customers are unclear or minimal, while Ausgrid stands to gain significantly through RAB growth and guaranteed returns.
Is the trial able to demonstrate a reasonable prospect of giving rise to materially improved services and outcomes for consumers of electricity?	No, see the reasons listed above.
Does the trial maintain appropriate consumer protections and mitigate any risks to consumers?	The proposal does not adequately outline how consumer protections obligations would be met, particularly where customers are experiencing vulnerability and the suggestion that customers are not provided with the opportunity to opt-out, or (where Ausgrid becomes the Solar Operator of Last Resort) how the customer would be compensated for hosting DNSP owned assets on their private property.
Could the trial proceed under the existing regulatory framework?	In our view a modified version of the CPN model could proceed more appropriately under existing regulatory arrangements, as there are current trials of a similar nature currently underway within these structures.
Has the trial project moved beyond research and development stages but is not yet established, or of sufficient maturity, size or otherwise commercially ready, to attract investment?	The proposal emulates what we regard to be a physical and financial arrangement that could attract private investment. Key barriers to upscaling community batteries and other CER/ VPP arrangements include DNSPs disclosing to the market locations that have sufficient hosting capacity or with potential capex deferral benefits, and having standardized arrangements for network connection and access pricing.

Might the trial project negatively impact AEMO's operation of the national electricity system and national electricity market and, if there are impacts, how those impacts can be mitigated?	The project does not appear to have negative impacts on this regard.
How does the trial impact competition in the market?	The trial will require all customers in the network to sign up to similarly defined geographic pricing, removing choice and their ability to have their own CER (solar, batteries, and EV) as these involve different pricing and or technologies than Ausgrid would need. The tension between Ausgrid's needs and desire to scale these activities would stop the competitive provision of all these services.
Is the trial project able to be trialled and evaluated?	The trial's design cannot properly substantiate whether Ausgrid's commercial and pricing model will deliver benefits relative to alternatives involving competitively delivered solutions. This includes in terms of lower delivery cost and acceleration relative to grid scale solutions.
Can the trial be expanded successfully?	We do not consider the trial can be sustainably expanded. In addition to the impact to competitive markets outlined, It relies on cross-subsidization of the CPN area from other Ausgrid customers ($73 million of the total funding for the trial is obtained via Ausgrid customers outside of the Community Power Network, who do not receive any dividend), as well as on overpayments to Ausgrid by retailers that are passed into the CPN benefit pool rather than refunded once the actual-cost differential is calculated. Additionally, Ausgrid's proposed approach hampers incentive for non-network behind the meter batteries, and locks in customers to Ausgrid's pricing arrangement. Incentivization to participate additionally appears to depend on Ausgrid mandating distributed solar and or paying above market FiT rates; it is not clear how the latter can be sustainable at scale.
Will the trial project provide for public sharing of knowledge, information and data resulting from the trial project.	The proposal appears to provide for appropriate knowledge sharing.

Appendix III: Other issues.

Ausgrid has not fully considered customer impacts.

A clear understanding of Ausgrid's approach to funding is necessary to determine whether the outcomes for small customers are equitable.

- The cost of the trial will be recovered through several mechanisms that are ultimately paid for by all Ausgrid's customers. These are not equitable funding mechanisms and cannot result in equitable outcomes.
- The approach proposed would limit individual customers' capacity to install their own CER and increase their cost of doing so. This is not equitable in the obvious sense (limitation on individual customer CER installation) or in the broader sense, since all Ausgrid customers will pay for the installations of CER made by Ausgrid whether there was a demand for that installation in that area or not.

Ausgrid makes several comments regarding equitable outcomes for customers that are not borne out through trial design. We are concerned that the trial application does not consider appropriately all angles of customer experience, focused as it is on cost and price benefit. There is a need for further consideration of:

- How existing CER would be incorporated (or not) and rewarded (or not), and how penalties for these customers would be avoided.
- How small customers would be impacted in their ability to connect CER within these trial areas if Ausgrid maximizes grid utility in this area, in terms of constraints and fees for connecting where there are constraints.
- The trial will require all customers in the network to sign up to similarly defined geographic pricing, removing choice and their ability to have their own CER (solar, batteries, and EV) as these involve different pricing and or technologies than Ausgrid would need. The increased scaling of the trial would stop the competitive provision of all these services, bringing associated consumer detriment.
- How customers would be protected in their agreements with Ausgrid for the lease of their roof space and or other use of private property related to facilitating the community network and how this will be compensated ongoing, in the case where Ausgrid becomes Solar Operator of Last Resort (SOLR).

If Ausgrid as the SOLR is engaged, it seems their focus is on large customer sites (although this is not certain, hence our concerns listed above). Even here there are further issues to consider. Large customers are often quite sophisticated participants who can make a cost-benefit analysis on the question of participation through installation of CER. However, we anticipate that:

- There is likely to be limited interest from large customers in installing solar and participate, even with higher FiT on offer. It should be noted that the higher FiT is funded by the CPN funding pool and would remove that funding from the community and instead provide it as a benefit to commercial entities.
- Installation of solar panels may not be possible even if it would be desirable due to the weight bearing limitations of existing structures. Available roof space does not equate directly to capacity for further CER installation.
- Installation of CER that exceeds the customers usage introduces commercial pricing risk and super-sizing CER installation can result in less favorable pricing outcomes for these customer sites as solar can increase demand variability and is more difficult to predict.
- Offering higher FiT in the trial area is also at odds with Ausgrid's current tariff design policy to charge export tariffs, and a lack of certainty post-trial would disincentivize participation.

We would be interested to understand how Ausgrid intends to make trial area participants (small and large) aware of the trial, its structure, and stated benefits.

Ensuring consumer protection for small customers is not addressed by the trial proposal, other than to state that Ausgrid intends third parties would meet those requirements in undertaking solar installation. We do not see how this can be achieved by a third party with the information available about the trial, to ensure the customer fully understands and consents to the trial participation and outcomes.

Additionally, Ausgrid does not outline what it expects to be required to do in relation to consumer protections if the SOLR threshold is met, and Ausgrid undertakes these activities directly. This would need to be fully articulated prior to trial approval and commencement to ensure that customers are not subjected to adverse outcomes through an unbalanced negotiating structure and no ability to opt out.

We recommend imposing several trial conditions.

An outworking of the trial that Ausgrid frames as a benefit to industry is a Spatial Energy Plan. All DNSPs should have spatial energy plans under the current state to ensure appropriate utilization of their networks – Ausgrid should have one already.

The AER proposes a trial condition that data in the spatial energy plan be released and periodically updated to allow third parties to respond to market needs. We agree with this. However, it is only necessary if the AEMC does not progress the proposed IDSP rule change. Irrespective of this rule change and trial projects, we expect the AER to and require networks to publish data wherever appropriate to enable industry to deliver competitive solutions and accelerate the transition generally in accordance with the NEO.

The AER's Low Voltage Network visibility final report recently outlined that network information disclosed under Victoria's 'Neighborhood Battery Initiative' was not suitable to meet stakeholder needs5. The AER proposed that the IDSP rule change would improve this. Ausgrid does not appear to be a participant in the 'picloflex' platform. Some DNSPs are using this to share information to elicit market-led solutions, including the estimated value available from doing so that can help build non-network business cases. The AER could require Ausgrid to participate in this platform for the trial areas (or ideally all areas) for a period prior to formal approval of trial commencement. This would help illustrate the presence of barriers to market-led solutions in the form of information asymmetry.

We agree the AER should have oversight of the tendering and procurement process for any SOLR activities. If the AER approves the Sandboxing request, and with the SOLR intact, then:

- Timeframes should be established in advance of the trial to determine when the threshold target (Ausgrid proposes 30%) is reached.
- A higher threshold should be considered if there is investment, but it is not moving at the pace required, alongside a review of Ausgrid procedures relating to connections that may be slowing down pace, before the SOLR is triggered.
- Ausgrid should set out its engagement plan to ensure that trial area participants will know of the trial and that there are opportunities for participation.

The AER should also set out when those activities are triggered more fulsomely than is outlined in the Ausgrid proposal, alongside how the consumer protection concerns we have raised previously would be addressed.

5 Low-voltage Network Visibility: Final report, Table 1 Summary and resolution to Phase 2 outcomes p9

In addition to its reporting requirements, the AER should define the 'measure of value' created and delivered to customers. This could be disaggregated e.g. value created versus value delivered. This would provide better insight as to the overall benefit of a trial and whether the cost to consumers is actually outweighed by the benefits if those benefits are not able to be defined in dollar terms.

The AER should require Ausgrid to share learnings to date, so that the market and energy transition can benefit from these in a timely manner. Ausgrid states that it will do so 'as the trial progresses' but it is unclear what Ausgrid would share that would be of benefit to the broader markets' integration and operation of CER.

The University of NSW would undertake a qualitative independent assessment of the impact on communities of the pilot. While this may be useful in understanding whether the trial has a positive or negative impact on social licence, which we do not dispute is an important factor, it does not appear to translate directly to large-scale CER design integration and operation.

Other reporting would be based on the AER's trial conditions reporting parameters. These are broadly proposed to reflect compliance with the terms of the waiver through the trial and are also unlikely to provide direct benefits regarding large-scale CER design integration and operation.

It is not clear from the proposal what technical and financial aspects of the trial would be reported on or made available to the market. We assume that this would be the case, because it currently occurs in other trials.

The benefits to customers are not proportionate to the value of the trial to Ausgrid.

Ausgrid's proposal and comments at the AER's recent forum positioned retailer behaviours negatively, without substantiation, suggesting that competition is not delivering customers benefits and that regulated service delivery is a superior outcome for customers. The market's VPP products are delivering savings to consumers. This was highlighted in the ACCC's most recent report, and we expect this to continue.

Ausgrid proposes to provide a dividend to customers annually, starting from the second year of the trial ($11 in the first year and $270 by year 5). As we have noted above, our community battery arrangement offers a guarantee $200 rebate as a feature of the product, regardless of how the arrangement performs. Ausgrid's is dependent on whether they generate a profit or not.

In addition, Ausgrid's application states that:

> *because it is not practical to differentiate between local and NEM power sources in real time, standard network tariffs will be charged to retailers as power is consumed. Ausgrid will then calculate the volume of local generation off-line and allocate a portion of the recovered network tariffs to the Community Power Network's benefits 6□.*

In effect, Retailers will be charged the full network tariff, but customers will be credited, therefore the 'value' Ausgrid is sharing is overpayments made by retailers on network tariffs. This does not appear to reflect genuine value creation, rather it is a reallocation of funding.

6 Ausgrid waiver application p 25.

Additionally, Ausgrid says that *'The Community Power Network batteries are focused on providing the highest returns for customers, not their owner. During daytime peaks, solar will be purchased at rates that may exceed prevailing wholesale market 7□'*

This appears to be a blanket statement, and it is debatable what arrangements deliver highest returns for customers, and how different customers are defined. Alternatives could include:

- benefiting or protecting local solar owners by not applying export limits and two-way export pricing).
- passing on the near-free energy generated through local solar using a specific trial tariff that is passed through via the retailer, rather than a bill credit. This would reflect the value that Ausgrid is able to access.
- Specifically, how Ausgrid proposes to operate batteries in the wholesale market and returns available from that, versus for storage and discharge in the local distribution network that avoids grid consumption.

Funding issues

Funding is sought that may be duplicative to funding already approved.

- Within this funding, Ausgrid seeks funding ($17.8 million) to establish a Distribution System Operator (DSO) on top of a further $8 million in operating costs. If Ausgrid does not have a DSO function sufficient for the trial, it does not automatically follow that the trial ought to fund it. This is a role expanded upon within the current M3/P5 workstream of the DCCEEW CER Taskforce, and we observe that even within this workstream there is an understanding that DNSPs are largely 'unofficially' performing this role within the market8. Leaving aside whether this is how one would design the market framework if it were designed and not evolved, on the basis that these operations are currently being performed to some extent, we consider that the costs associated for Ausgrid should not be as high as specified in their application.
- Ausgrid also seeks $9 million in community engagement and delivery funding. It is not clear why this should be additional to the funding Ausgrid already receives for community engagement in relation to its activities. The trial is simply an Ausgrid activity.

Funding is obtained via other market participants.

Costs that are borne by other market participants are not considered in the trial costs but are nonetheless relevant. These include:

- Participant costs to design and implement systems changes to support the network's trial.
- Retailers will be paying for the differential in the network tariff and not reimbursed for this, with the difference being added to the CPN benefits pool. This essentially means that Ausgrid will be paying the CPN customers using payments made by retailers, rather than actual value derived from the trial

This demonstrates why "in-market" tests should be ring-fenced from the rest of the market. To test an idea with impacts on others outside the trial, the tests could be conducted in a non-live, simulated environment.9 We consider that a significant portion of what the Ausgrid trial would achieve (load shifting and pricing structures) could be effectively modelled in such a simulated environment.

7 Ausgrid waiver application p.16
8 Distribution system and market operations – Consultation Paper P 32-33
9 20220128-aer-regulatory-sandbox-aec-submission.pdf, p2.

The proposal highlights several issues with the regulatory framework

The proposal seeks to deliver customer benefits via installing and operating generation and storage assets, which will be optimally located within the distribution network. These assets will displace network investment while also generating revenue streams from wholesale markets.

This appears to be the type of project that should be enabled via network planning disclosures, the Regulatory Investment Test (RIT) and general ex ante capex incentive framework. That Ausgrid has packaged this into a sandboxing proposal should raise concerns within the AER and highlights the need to reinforce current regulatory arrangements, rather than relax them.

Ausgrid suggests that its CPN should reduce the network costs to build and connect dispatchable renewable capacity by over 20%.[10] This value appears to be drawn from Ausgrid's table A.1, which (while difficult to read) compares a per MW cost of various transmission projects to its own costings. We are unable to verify the source data for this table. That distribution-level solutions can be delivered at lower cost and more rapidly than grid-scale investment are key merits identified by Ausgrid, along with the strategic placement of storage to avoid or defer network upgrades.[11] Ausgrid notes that it is planning to replace switchgear in the trial areas at a value of $30 million which could be deferred or reduced.[12] These cost savings are central to Ausgrid's claim, however they are not mentioned in Ausgrid's analysis of customer benefits.[13] This information should be readily available from its augmentation forecasts or other spending presented as part of revenue determinations and planning reports. As noted above, Ausgrid's spatial plan is pivotal to the proposed trial and this type of information should be released to the market to support the RIT framework and elicit cheaper solutions that ultimately lower system costs for customers.

An important element of Ausgrid's proposal is that it appears to be leveraging off RAB funding in order to offer pricing rebates that are intended to encourage (or in the end, mandate) additional rooftop solar. Where this delivers genuine system and customer benefits, including via the Value of Emission Reduction (VER) this should be priced into the RIT-D solution. Ausgrid would then benefit from efficiency gains under the CESS/ ex ante allowance. That Ausgrid has not proposed this pathway and has requested exemption from the CESS, suggests that the incentive regime is not functioning as intended. The AER should also be wary of deeper issues at play such as a potential 'capex bias' which has been flagged by other commentators.[14] To this point, it is not clear why Ausgrid needs to own particular assets and the proposal could involve one (or both) of the trial areas eliciting competitive bids for a build-own-operate solution for the specified assets, which could be compared against Ausgrid's own costings or those of its related ring-fenced entities.

Further to exemption from the CESS, it is generally not clear how the trial costs would involve AER oversight or other pressure on Ausgrid to deliver at least cost. Ausgrid suggests it would bear any losses associated with shortfalls in terms of insufficient revenues; however, the proposal is unclear about what safeguards there are on variances from project costs. On the revenue side, there does not seem to be any incentive for Ausgrid to maximise dividends for customers in the trial areas, only to minimise its own downside risk.

A final issue arising is Ausgrid's use of VER as a representation of emissions benefits arising from the trial, however these values are then capitalised, transforming them into a cost to be recovered from all Ausgrid customers. The AER needs to strongly oppose

[10] Ausgrid, p. 41.
[11] Ausgrid, p. 2.
[12] pp. 5, 13.
[13] p. 26-30.
[14] Reforming the economic regulation of Australian electricity networks May24

Ausgrid in this regard as it will set a dangerous precedent for other project and expenditure proposals.

Ausgrid as Solar Owner of Last Resort is not appropriate.

To ensure the trial can go ahead, Ausgrid has proposed a role for itself as 'Solar Owner of Last Resort' (SOLR). It is not clear how Ausgrid would exercise its 'last resort' rooftop solar powers, for example how it would mandate installations in customer premises.

Ausgrid states it will only step into solar ownership and operation if commercial markets do not respond. Ausgrid would consider activating this mechanism if solar installations fell 20-30% below targeted levels. The difficulty with this as a threshold consideration is that commercial markets not responding would normally be a sign that there is no value to be obtained or shared.

There should be no SOLR. Ultimately, if customers do not want to participate in the program, then this is an indication that there is no desire or need to create the sort of environment the trial proposes and instead should serve as an indication that it should not progress. Ausgrid progressing regardless of interest underlines the problem with this proposal – there is no clear market failing established

Given the areas in which the trial is to be undertaken, the AER ought to consider whether trial design option A is feasible, or whether this is a mechanism Ausgrid could reasonably expect to fail which would default them to the SOLR, with all the benefits to the RAB that this would entail.

Finally, we consider that this is exemplar of the reasons Ausgrid should not automatically be granted the ringfencing waiver it would require to undertake the trial if approved through the Sandboxing process. The establishment of Ausgrid as SOLR would need to be more clearly set out for consideration under the existing Ringfencing application process than is necessary through Sandboxing.

This is important because the 'ringfenced entity' that performs the SOLR role will also deride value from the volume of jobs associated with the trial, conservatively 30% of the 70MW of solar forecast under the proposal. This represents significant revenue that will be guaranteed for their ring-fenced entity, (PLUS ES and its 'solar partners') with Ausgrid estimating that the 70MW of solar will require ~$77 million in funding (30% = $23 million). Regulatory Sandboxing assessment does not consider this, but the Ringfencing process explicitly does.

To ensure the market retains its trust in both the innovative and established regulatory processes, it is imperative that the AER ensure that the Ringfencing requirements are met and that Stakeholders are provided with appropriate opportunities to feed into those processes.

What kind of trial may be acceptable?

A smaller, more specific trial that is appropriately ringfenced and supported by competitive entities may be an appropriate alternative to Ausgrid's proposal. We note that the AER has received Ringfencing waiver requests from other DNSPs which meet this description, which we do not oppose.

In our view, to progress a Sandboxing trial application Ausgrid would need to:

- Clearly demonstrate genuine innovation that is limited by regulatory settings in a manner that may not be necessary to meet the objectives of the NEO.
- Utilise a significantly shorter timeframe.
- Reduce the size of the trial in both geographic and participant terms.
- Provide the information it has relating to availability of the network.

- Provide access to the areas of the network where they would install the batteries, these areas can be rented to competitive parties.
- Provide the same installation and operation rates that it would have charge itself for operating the batteries.