17 September 2024

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

Submitted via email: regulatorysandbox@aer.gov.au

Submission on Ausgrid's Community Power Network Trial Waiver Application

Nexa Advisory is making this submission in response to Ausgrid's Community Power Network Trial application.

Nexa does not support Ausgrid's Community Power Network trial waiver request. It is a disingenuous and poorly conceived proposal, and we urge the AER to reject it.

While Ausgrid has identified many worthy objectives in its proposal - such as accelerating consumer energy resource (CER) uptake, addressing equity concerns, and reducing emissions - Ausgrid has not made a compelling case for why it must own and operate CER assets to deliver these objectives.

The proposal appears to reverse-engineer its rationale: selecting a desired outcome (DNSP ownership and control of CER) and then backfilling the objectives and learnings to justify it. As presented, the trial lacks genuine innovation and fails to demonstrate that it will deliver the outcomes it claims.

Many of the identified challenges are already being addressed - or can be more effectively addressed - through:

- the vibrant and evolving competitive CER market;
- government policy initiatives and ongoing regulatory reform;
- incentives in the existing regulatory framework; and
- DNSP-initiated improvements in tariff design and pricing, connection processes and data transparency.

On the last two points, Ausgrid has significant room for improvement. Many of the barriers to accelerated CER uptake sit within DNSPs' remit to resolve and can be addressed under the existing rules. Crucially, the proposal narrowly focuses on the capital expenditure reopening rule waiver while failing to adequately address the more fundamental requirement: a ring-fencing waiver. This is central to the proposal and to the concerns raised in this submission.

Granting a ring-fencing waiver would not serve the long-term interests of consumers. It would set a damaging precedent, undermine trust at a time when trust levels are already low, and risk undermining all the progress made in developing a competitive

CER market. Such a move would be inconsistent with the principles underpinning the NEM, the recent findings of the *NEM wholesale market review* and the intent of ring-fencing rules.

This is not a trial designed to test a regulatory hypothesis, but rather a self-interested attempt to reshape the rules in Ausgrid's favour. We urge the AER to respect the limits of its authority in this process and refrain from endorsing a proposal that fundamentally alters the role of DNSPs in a competitive CER market.

Consumers deserve solutions that build trust, stimulate competition and respect their autonomy - not proposals that seek to bypass them.

Summary of reasons why this proposal should be rejected

Cost

- $72.8m will be recovered from all Ausgrid customers via its standard control services RAB, despite no demonstrated benefit.
- There is no transparency around costs and no evidence that detailed modelling of expected costs and benefits has been undertaken.
- A significant portion of the cost ($42.6m) is attributed to the emissions reductions benefit associated with assets paid for by consumers themselves.

Regulatory flaws

- There is no evidence that the trial objectives cannot be delivered under the existing regulatory framework, either by the market or Ausgrid's own actions.
- The proposal attempts to circumvent the ring-fencing guideline and avoid proper scrutiny under the ring-fencing waiver process.
- It also seems designed to bypass the RIT-D, despite the capex clearly exceeding the $7m capex threshold that would normally trigger such an assessment.

Impact and purported benefits

- The trial seeks to address problems that the competitive sector is already capable of solving.
- The claimed benefits are tenuous and largely unquantified.
- Consumer choice is not respected or prioritised in the design.
- Learnings are largely proprietary to Ausgrid, and sector-wide learnings will be minimal.
- The trial risks exacerbating equity issues rather than addressing them.
- It introduces various forms of price discrimination that may harm competition both within and outside the trial areas.

- There is no assurance that Ausgrid will avoid other forms of discriminatory behaviour, for example preferential treatment in connections, which could further distort competition.

Design

- There is no clear justification for the proposed five-year trial duration or the proposed scale of the trial at 32,000 participants.
- The success criteria are vague and assessed against undefined counterfactuals, making it difficult to determine trial's effectiveness, decide the appropriate exit strategy, and guide future regulatory reform.
- The trial lacks defined milestones, offering no opportunity for independent assessment or course correction as it progresses.
- The design is DNSP-focused and does not allow for the comparison of alternative options.
- There is little transparency proposed around trial progress and outcomes.

We understand that this is the first sandbox proposal to make it out of the initial discussion stage, and it therefore sets a very low bar for future proposals. The proposal lacks any evidence to support its purported costs, benefits and learnings, and through it Ausgrid attempts to blatantly flout several regulatory processes.

If the AER is to ensure that "consumers are better off now and into the future" and that consumers "pay no more than necessary for energy to their homes and businesses" it must see this proposal for what it is and either reject it outright or require Ausgrid to provide evidence of why its stated objectives and learnings cannot be delivered under the existing regulatory framework or by the market.

We encourage the AER to reject this proposal and instead focus the resources on addressing the barriers of CER as we have previously highlighted that is currently in the AER remit. These include:

1. **Address other barriers to facilitate CER uptake.**
    a. Enforce obligations for DNSPs to share granular data on network operations, hosting capacity, and constraints. This is critical to enabling competitive, low-cost solutions and avoiding unnecessary network investment.
    b. Require DNSPs to standardise and streamline processes for new network connections, enforcing penalties for delays, and to modernising tariffs to reward CER across all customer segments.
2. **Address other barriers specific to C&I CER uptake.**
    a. Accelerate reforms to value energy services and contract markets – including tariff reforms to facilitate investment and ensure innovative pricing that

rewards flexibility, exports and CER integration for C&I consumers. These reforms should align with the recent National Electricity Market Review.

3. **Ensure competitive neutrality.**
    a. **Strengthen enforcement of the existing ring-fencing provisions.** The Australian Energy Regulator (AER) must uphold current ring-fencing arrangements and clarify their application to non-network investments, including distribution-scale batteries.
    b. **Enhance the ring-fencing waiver process.** The AER should cease the consideration of further waivers until it assesses the impact of waivers already granted. This would allow time to assess the effectiveness of these models before further waivers are granted.
4. **Undertake an independent review of distribution networks and address the capex bias.**

To avoid inefficient network asset growth in the current cost of living environment, the AER and other state regulators such as the New South Wales Independent Pricing and Regulatory Tribunal - must provide better regulation and oversight of regulated capital expenditure by DNSPs.

The remainder of our submission provides a detailed analysis and critique of the proposal for the AER's urgent consideration.

If you have any queries or questions about any aspect of our submission, please contact either myself on [redacted] or [redacted], [redacted].

Yours Sincerely,

[redacted]
Nexa Advisory

The AER's role

The AER's role, as summarised by the AER on its website, is to ensure that "consumers are better off now and into the future" and that they "pay no more than necessary for energy to their homes and businesses."[1]

In assessing a sandbox proposal, the AER must have regard to the National Electricity Objectives (NEO). While Ausgrid's proposal may deliver some efficiency gains through cross-subsidisation in the short term, we remind the AER to keep its assessment focused on alignment with the NEO – specifically the long-term impact upon and benefits for consumers.

The sandbox framework differs from other trial frameworks, for example ARENA grant funding rounds, that require proponents to compete to access funding. The ARENA approach incentivises proponents to put forward strong and detailed proposals with tangible and assessable benefits, and naturally allows for the progress and outcomes of successful projects under the same program to be compared against each other. Successful ARENA projects must have clearly defined milestones to enable ongoing assessment of progress, and to protect consumers from undue risks by stagings the delivery of funding.

Because the sandbox framework is not a competitive process and the bulk of funding is intended to be recovered from Ausgrid consumers, the AER should not consider approving this proposal unless Ausgrid provides significantly more analysis and transparency of trial costs, benefits and outcomes to allow the AER to fulfil its role and conduct an informed NEO assessment.

The NEM was designed with competition at its core

As the recent draft report for the *NEM wholesale market settings review* recalls, "the NEM was established with competition, transparency and efficiency at its core" and the Hilmer Review "recommended separating monopoly networks from competitive activities like generation and retail."[2]

This separation was designed to keep regulated network businesses out of competitive markets, and for good reason. The AER's original ring-fencing guideline noted that:

> *"The objective of ring-fencing is to provide a level playing field for third party providers in new and existing markets for contestable services, such as those for … energy storage services, in order to promote competition in the provision of electricity services. Without effective ring-fencing, DNSPs would hold significant advantages in such markets."*[3]

[1] See: https://www.aer.gov.au/about/aer/our-role

[2] NEM wholesale market settings review, Draft report, August 2025, p26.

[3] AER, Electricity distribution ring-fencing guideline, Explanatory statement, November 2016, p1.

The exclusion of regulated DNSPs from contestable markets is a fundamental premise of the NEM. It directly affects the incentives that competitive businesses have to enter the market and to innovate.

We are seeing a growing push from DNSPs against this separation, through ring-fencing waiver requests, direct pleas to government, and through this trial waiver. In Nexa Advisory's view, this push has three drivers:

1. From a cultural and risk management perspective, DNSPs prefer to control assets directly, instead of procuring equivalent services via competitive businesses using opex.
2. The network regulation framework incentivises DNSPs to spend capex over opex.
3. DNSPs see the decentralisation of the grid as an existential threat and are looking to cement their role in a future grid.

The growth of the solar PV and battery markets has shown that private enterprise can develop mature, vibrant and competitive markets for CER in Australia. These markets exhibit high levels of product and service innovation, price competition and service quality, delivering positive outcomes for consumers.

Unfortunately, the existing ring-fencing framework isn't robust enough to protect against the harms of allowing regulated monopoly businesses to provide competitive services. DNSPs largely police their own ring-fencing breaches, and as far as we are aware:

- no retrospective analysis has ever been done to assess market / consumer impacts after a waiver is granted, and
- no ring-fencing waiver has ever been retracted.

We encourage the AER to go back to first principles - recently reinforced by the *NEM wholesale markets review* panel - and uphold the intended separation between regulated and competitive spaces to ensure the NEM meets the long-term interests of consumers. Doing so will ensure the efficient provision of regulated services and allow competition to drive efficiency and positive consumer outcomes for all other services. Our specific concerns with the proposal's impact on competition are set out in a later section.

Presenting this proposal as a "trial" is disingenuous

Presenting this proposal as a "trial" is disingenuous and inappropriate, for the four reasons outlined below.

It raises fundamental policy issues that should not be addressed through a sandbox

This waiver request requires the AER to determine whether it is in the long-term interest of consumers to allow DNSPs to enter a competitive space. The prohibition of regulated monopolies from contestable markets is a fundamental principle of the NEM. A regulatory sandbox is not the appropriate regulatory process to consider whether this prohibition should be waived.

The AER's innovative trial principles ask whether "there is potential for the trial project to be successfully expanded".[4] Successful expansion of Ausgrid's proposed trial would require fundamental change to the regulatory framework, allowing DNSPs to own, operate and control CER with no waiver required. As far as we are aware, no such fundamental change is being considered – and as discussed above, the NEM Panel has recently recommended that competition be upheld as a core NEM principle. Even so, if such a question is to be considered, it should be done so through a more robust and consultative regulatory process than the sandbox framework affords, and in response to compelling evidence that the separation of regulated businesses from competitive markets has failed to deliver the best outcomes for consumers.

The "trial" is neither new nor innovative

The AER's consultation paper states that the purpose of sandboxing is to "help energy innovators and start-ups navigate complex regulatory frameworks and enable the trial of new products and services that will deliver greater choice and cheaper energy options for consumers".[5] Ausgrid is not a startup and, as explained below, nothing in the proposal is novel enough to allow Ausgrid to be described as an innovator. There is a big difference between a startup with a novel business idea and a DNSP looking to bypass a foundational principle of the NEM to increase their regulatory asset base.

Ausgrid's hypothesis is that "the coordinated deployment and orchestration of distributed storage by the network operator can deliver the lowest cost of electricity to all customers."[6] Given Ausgrid's considerable advantages in scale, in scope, control over barriers to entry, easier access to financing, information advantages, and its ability to rate base the costs, it's not unreasonable to expect that this hypothesis will be proved in the short term. If we can predict the outcome already, what is there to trial?

Further, Ausgrid has not demonstrated how its trial is different to, or builds on, similar trials including Project Edith, Project Symphony, and the Community Batteries for

[4] AER, Trial projects guidelines, January 2023, p11.

[5] AER, Ausgrid: Community power network trial, Issues paper, 2025, p1.

[6] Ausgrid, Community power network, Regulatory sandbox application – revision 2, July 2025, p.2.

Household Solar program.[7] The latter is most relevant, as it is directly testing the value of DNSP-led models against retailer-led models and has an equity focus. Ausgrid is a participant in that program, with 46 community batteries and the following objective, which is very similar to the sandbox objective:

> *"The Project aims to overcome barriers to energy storage by enhancing grid stability, enabling community access to battery storage through the customer storage product, alleviating customer solar export curtailment and reducing household electricity costs via a customer storage product."*[8]

The AER's innovative trial principles ask whether the proposal "is focused on developing new or materially improved approaches to the use or supply of, or demand for, electricity and … customer retail services." The core aspects of the proposal are not new ideas:

- **DNSP ownership of BESS, and leasing of spare capacity.** The AER implemented a ring-fencing class waiver for DNSP-owned batteries under the Community Batteries for Household Solar program to support the leasing of excess capacity. Ausgrid's trial does not propose any "new or materially improved" approach to what is already being done through existing trials.
- **The orchestration of CER.** The concept of a VPP – that is, one player remotely managing the combined capability of CER – is not new. The competitive sector has rapidly evolved in this space, with many businesses now offering VPP services to maximise returns from available value streams and to share those benefits with the CER owners. DNSP-led orchestration is also not a new idea – again, this has been explored through several trials, including by Ausgrid under the Community Batteries for Household Solar program.
- **Energy or benefit sharing.** The concept of energy or benefit sharing across the community has been explored through several trial projects and is delivered by market participants today. While the idea that the DNSP itself would share the benefits / energy is somewhat new, nothing in that approach is particularly valuable to explore.

There are three aspects of the trial that might be considered "new":

1. **Spatial energy plan.** This is an excellent initiative. It responds to stakeholder feedback that greater transparency and granularity of network data would support a more efficient CER rollout by the private sector. Fortunately, Ausgrid can prepare the plan under the existing rules – no waiver is required – so the argument that the plan is new or innovative is moot.

   Similarly, the tariffs Ausgrid proposes might be new in terms of their structure and/or price, but the ability to implement new tariffs is not novel and is already

[7] See: https://www.ausgrid.com.au/About-Us/Future-Grid/Project-Edith; https://arena.gov.au/projects/western-australia-distributed-energy-resources-orchestration-pilot/; https://www.dcceew.gov.au/energy/renewable/community-batteries

[8] See: https://arena.gov.au/projects/ausgrid-co-located-community-battery-program/

well catered for under the trial tariff framework. We recommend that Ausgrid commence work on both initiatives, collect data on the outcomes and transparently present the findings for evaluation by all parties.

2. **Dividend payment.** The AER's consultation paper notes that the "distribution of dividends from a DNSP to customers may be novel and innovative". Ausgrid's proposal identifies that there are significant complexities of this approach that have not been worked out, including how the dividend will be structured, what value it might have, and how it would be paid to customers. The proposal outsources resolution of these issues to an external working group and acknowledges the risk that the "pilot never makes a positive dividend."

   Further, payment of the dividend appears to rely on agreements struck with retailers in the trial areas, but the proposal makes no mention of how these deals will be struck or what risks might arise if the DNSP fails to contract with any/enough retailers.

   If the dividend is the only aspect of the trial that is genuinely novel and cannot be delivered under the existing regulatory framework, then Ausgrid should have put a lot more effort into determining its design, its value and its distribution prior to this application. Consumers should not bear the cost of an under-developed concept that lacks a clear pathway for delivering measurable bill savings.

3. **Local market for surplus solar.** The trial proposes to "create a profitable local market for surplus solar." This comes at a time when the *NEM wholesale market settings review* has explicitly recommended: "Do not create distribution-level wholesale energy markets."[9] Creation of distribution level markets is not a NEM policy objective, especially when it comes at the cost of energy consumers.

Ausgrid also references the first bucket of policy-led sandboxing ideas - *network-led orchestration or coordination* – in its proposal. However, Ausgrid fails to incorporate the two test ideas in that policy bucket:

- It does not "test different models of DNSP-led CER access, deployment and orchestration", it is just proposing to test one.
- It does not "test price signals versus direct control to drive DNSP-led orchestration", it is just proposing to test direct control.

In Nexa's view, the policy buckets that more appropriately reflect the issues identified in Ausgrid's proposal are: *network data visibility as an enabler* and *tariff innovation*. As explained in a later section, these matters can and should be tested by Ausgrid now under the existing regulatory framework.

The "trial" label is at odds with what is being proposed

The term "trial" suggests small in nature with no/minimal impact on other participants. This trial is big - in terms of number of customers, costs and administrative burden.

[9] National Electricity Market wholesale market settings review, Draft report, August 2025, p78.

Beyond the capex requirements, the trial requires a call centre, changes to customer contracting arrangements, new agreements between Ausgrid and retailers and BESS operators, new IT programs and establishment of a means for DNSPs to pay customers.

The proposal notes that the two trial areas will cover 32,000 customers, roughly 1.6% of Ausgrid's total customer base. This is a very big "trial". Ausgrid has not provided a clear or strong justification of why it needs a 32,000 sample size. It argues that this is for simplicity and diversification of consumer types.

Simplicity is not a good enough argument given the scale and impact of the proposal, and the diversification argument is unclear. If all customers will receive a dividend regardless of how much they use, whether they own CER and whether they change their consumption behaviour then diversity is irrelevant.

The proposed trial is also long, at five years. Ausgrid has not justified why such a long trial is needed. the five years will make the trial harder to unwind should results prove to be unsuccessful. We expect that Ausgrid's ideal outcome is for the costs of unwinding the trial to be so significant that the AER waives through its exit strategy of having it classified as a distribution service and for the "trial" of 32,000 customers to continue indefinitely.

A waiver would have considerable flow on impacts that go beyond what a "trial" implies

The policy implications of granting Ausgrid's waiver are considerable. The AER's decision on this matter will, whether intended or not, set a precedent. Consequently, it will have broader ramifications for the battery services market, not just in New South Wales, but NEM-wide.

AER endorsement of this proposal would embolden other DNSPs to propose similar trials. In doing so, the AER would create an environment of investment uncertainty and power imbalance that is not easily undone, at a time when Energy Ministers and the NEM Review Panel are attempting to enhance investor confidence and promote enduring regulatory frameworks.

The AER's innovative trial principles ask whether the proposal "may impact on competition in a competitive sector of the NEM." Our competition concerns are set out in more detail in a later section. Approving this will mean – competition is stifled, existing providers exit, innovators fail to enter and DNSPs emerge as the last resort provider. This is not aligned with the NEM principles or the AER's mandate which is ultimately about ensuring long term interest of energy consumers are protected.

Ausgrid must follow proper regulatory process

Ausgrid's application is attempting to circumvent two regulatory processes.

RIT-D

Ausgrid is requesting a waiver from the 5 per cent threshold test in clause 6.6.5 of the NER. Waiving the threshold would enable the AER to reopen Ausgrid's 2024-29 determination to approve the additional costs for the trial project, but only if certain criteria are met, including (underline added for emphasis):

- "an event that is beyond the reasonable control of the DNSP has occurred during that regulatory control period and the occurrence of that event during that period (or of an event of a similar kind) could not reasonably have been foreseen by the DNSP at the time of the making of the distribution determination"
- "the DNSP proposes to undertake capital expenditure to rectify the adverse consequences of the event"
- "a failure to rectify the adverse consequences of the event would be likely to materially adversely affect the reliability and security of the relevant distribution system."

Our understanding is that this clause is designed to ensure that a DNSP can keep its network safe and reliable without financial penalty if a serious, unforeseen event happens. It is difficult to see how the trial proposal meets the requirements of the clause. A sandbox project is not an "unforeseen event" or "beyond the reasonable control" of Ausgrid, and there are no "adverse consequences" to resolve with capex.

It's unclear why Ausgrid is seeking to waive this clause. It appears to be an attempt to get formal approval for the expenditure from the AER and avoid having to conduct a RIT-D in relation to the proposed capex. The project budget shows it easily exceeds the $7m capex threshold requiring a full, two-stage RIT-D, yet Ausgrid makes no mention of this in its proposal.

If Ausgrid will conduct a RIT-D for the proposed trial capex and a non-network solution emerges as the most efficient option, the trial objectives (which are premised on DNSP-ownership and control of CER and its benefits) cannot be delivered.

It is neither fair nor consistent with the framework for economic regulation of DNSPs to use the trial waiver process to deliver a desired capex outcome without proper scrutiny. The RIT-D is "a cost benefit analysis designed to identify the credible option that maximises net economic benefit for an identified need."[10] Ausgrid must carry out a RIT-D for this capex to enable a thorough assessment of costs and benefits and ensure that the proposed investments are the long-term interests of consumers.

Ring-fencing waiver

While Ausgrid's formal application only seeks a waiver from clause 6.6.5, the accompanying report states that it will seek a waiver from the ring-fencing guidelines if

[10] See: https://www.aer.gov.au/industry/networks/system-planning/guidelines-system-planning/regulatory-investment-test#:~:text=The%20RIT%2DD%20application%20guidelines,are%20predictable%2C%20transparent%20and%20consistent.

leasing out storage capacity or owning solar PV "conflicts with ring fencing requirements."

These activities clearly require a ring-fencing waiver. The leasing of storage capacity by DNSPs was the subject of a class waiver to deliver the Community Batteries for Household Solar program.

Ausgrid de-emphasises the ring-fencing aspect of the proposal and leaves the question open to reduce the risk of being required to submit a separate ring-fencing waiver application.

As noted earlier, the objective of ring-fencing is to provide a level playing field for third-party providers in new and existing markets to promote competition in the provision of contestable services. The scale and ambition of this trial suggests that Ausgrid is attempting to avoid any obligations that require a thorough assessment of energy consumer benefits.

Ausgrid requests that the ring-fencing waiver be considered within the trial application, arguing that "not seeking a separate, specific ring-fencing waiver eliminates difficulties associated with matching waiver lengths and implementing any exit strategy."

This is not a good enough reason to allow Ausgrid to circumvent the ring-fencing waiver process. The ring-fencing waiver process was designed to provide proper scrutiny of proposals, and for the AER to decide, in consultation with stakeholders, which clauses should be waived (if any) and any conditions to impose.

Further, while both the sandbox and ring-fencing waiver frameworks deal with exemptions from existing rules, they apply to different contexts and have distinct assessment criteria. Under the ring-fencing guideline, the AER must have regard to a reasonably narrow set of matters:

- the NEO;
- the potential for cross-subsidisation and discrimination; and
- whether the benefit, or likely benefit, to electricity consumers of the DNSP complying with the obligation (including any benefit, or likely benefit, from increased competition) would be outweighed by the cost to the DNSP of complying with that obligation.[11]

By contrast, the trial projects guidelines require the AER to have regard to a list of matters that is considerably longer, and consequently less focused on potential competition concerns and the costs/benefits to consumers of compliance with the guideline. Ausgrid's proposal requires a ring-fencing waiver and hence must be accurately assessed against the narrower criteria associated with that process.

Ausgrid is also asking for the whole clause to be waived – that is, no obligation to comply with any aspect of the ring-fencing guideline. The ring-fencing framework requires the AER to assess waiver proposals against a set of criteria (outlined above), to determine which clauses should be waived, and to impose conditions where required.

[11] AER, Ring-fencing guideline, Electricity distribution, February 2025, p17.

There are several clauses in the ring-fencing guideline that cannot be waived, for example with respect to separate accounting, cost allocation, and the obligation not to discriminate.

Granting Ausgrid's request would be an egregious flouting of the ring-fencing waiver evaluation process and would create inconsistent regulatory outcomes for similar projects. For example, waiving Ausgrid's obligation to comply with the entire ring-fencing guideline with respect to the lease of BESS capacity would be inconsistent with the AER's class waiver for the Community Batteries for Household Solar class waiver.[12]

The AER must not waive Ausgrid's compliance with the ring-fencing guideline through this process. The proposal must be considered separately through a full ring-fencing waiver process and against the criteria specified for it. Granting Ausgrid's proposal here would be inconsistent with the intent and process of the ring-fencing waiver framework and would call into question whether the AER is acting within its remit to protect the long-term interests of consumers.

[12] See: https://www.aer.gov.au/industry/networks/ring-fencing/batteries-funded-under-commonwealth-governments-community-batteries-household-solar-program-ring-fencing-class-waiver-december-2022/decision

Critical evaluation of the trial

There are considerable flaws in the arguments Ausgrid puts forward to underpin the trial's purported benefits and outcomes. These flaws are detailed below.

Costs are considerable

The proposed trial has significant upfront and ongoing costs totalling $186.7 million. $110.4 million of this will be recovered directly from customers in the trial area and through the SCS RAB, with the remaining $76.3 million funded through commercial and private investment.

This is a considerable amount of money for a trial. It far exceeds the funding support provided for most ARENA trials – for comparison, the federal government allocated $171m to ARENA to deliver "at least 343 [community] batteries" under the Community Batteries for Household Solar Program.[13]

There is no cost transparency in this proposal. It provides headline dollar figures but no further itemisation or justification of the significant costs. We note that Ausgrid has provided some confidential cost data to the AER but, as a regulated monopoly, Ausgrid must properly model and make public the costs and projected benefits of this trial, given the size of the bill it expects its customers to foot.

Through the trial, Ausgrid would face no competitive pressure to ensure costs don't blow out and there appears to be no regulatory mechanism to ensure this either. With the cost-of-living crisis front of mind for governments and market bodies, and network charges forming the largest component of customer electricity bills, it would be careless to approve Ausgrid's proposal without proper scrutiny and control of their costs. DNSPs' do not have a good track record providing BESS solutions that are cost-competitive with the market.

The Community Batteries for Household Solar program found that "network batteries were more expensive on average than non-network (behind-the-meter) batteries" with a weighted average cost of $2,300/kWh compared to $1,330/kWh where weighted by the number of batteries across projects ($2,240 vs $1,270 per kWh unweighted)". ARENA observed that this was driven by several factors, including:

- that some DNSPs are making large investments in core digital infrastructure, whereas most commercial operators use their existing systems or partner with technology providers; and
- balance of plant and construction costs tend to be higher for network and front-of-meter batteries.[14]

Ausgrid indicates that it will need $17.8m for its DSO functions – to build and maintain the spatial energy plan and to orchestrate the batteries. These costs, while not itemised any further across these two functions, are intended to cover dedicated software, a

[13] See: https://arena.gov.au/funding/community-batteries-funding-round-2/

[14] See: https://arena.gov.au/assets/2024/11/ARENA-Community-Battery-Market-Snapshop.pdf

team of engineers and the costs of partnering with an energy trading business – all of which will be recovered through the SCS RAB.

As noted in the first bullet point above, many of these are costs that the competitive sector has already incurred to support their own orchestration functions. Ausgrid has not provided a strong argument for why all Ausgrid customers should pay for an orchestration capability that the competitive VPP market is already able to provide. A smaller trial would presumably reduce these costs – again Ausgrid has not explained why its proposed objectives could not be achieved through a smaller trial. Without a more detailed cost breakdown, it seems like Ausgrid is attempting to significantly upgrade its own IT capabilities through this proposal.

When a customer decides to invest in a solar + BESS solution through the competitive market, they are free to choose the service and service provider that best meets their needs at a price they are willing to pay. Under the Ausgrid proposal, customers in the trial area have no choice in what is being offered and no control over costs.

We also note that solar PV providers will bid for a 16-year PPA with Ausgrid, but that the trial is only for five years. Ausgrid has not explained how the costs of paying out the remaining term of the PPA will be recovered or how this misalignment is to be managed.

It erodes consumer choice

The AER notes that "customers cannot opt out of the trial" and that they "may need to sign-up to a new plan with their retailer to access these higher feed-in tariffs." These outcomes are not aligned with the principles of consumer choice and a consumer-led rollout of CER, and they are outcomes that policy makers are actively attempting to stamp out.

Consumer choice is respected when the competitive market delivers CER assets and services. In competitive markets, businesses must innovate and price their services to meet customer needs, otherwise they will fail. With a regulated return, no direct relationship with the customer, and no ability for customers to opt out, DNSPs face no such pressure. This theory has been borne out in practice. For example, in the DNSP-led smart meter rollout in Victoria, where the delivery of otherwise competitive services by DNSPs resulted in a lack of innovation, poor cost-effectiveness, and no competition or consumer choice.

The ACCC's recent paper on VPPs reinforces the importance of consumer choice. It found that consumer protection risks are lower when consumers have "more control, shorter contract terms and limited lock in fees" and highlights that "it's important that the deals on offer are fair, accurate and easy to understand."[15] With limited transparency on costs and benefits, no ability to opt out, and a >5 year trial, it's hard to see how Ausgrid's proposal is consistent with the behaviours that the ACCC expects of the competitive sector.

The distribution of the dividend may also create consumer choice, retail competition and equity issues. Successful delivery of the dividend appears to rely on Ausgrid striking

[15] ACCC, Inquiry into the NEM report, July 2025, p11; https://www.accc.gov.au/media-release/electricity-industry-on-notice-as-more-households-invest-in-subsidised-batteries-and-solar

agreements with retailers operating in the trial area. If an agreement cannot be reached, e.g. due to the cost or complexity of passing on the benefit, we expect one of two things will happen:

- Customers of non-participating retailers churn to retailers that can pass on the dividend, creating stickiness and a potential retail concentration issue, or
- Customers of non-participating retailers do nothing, or refuse to change retailer, and consequently don't benefit from the dividend. This creates an equity issue and means that one of the most customer-beneficial objectives of the trial is not delivered.

Consumer benefits and interests are being compromised

The proposal contains numerous claims of consumer benefits arising from the trial that appear to lack justification.

Monetary benefits lack evidence and substance

The proposal states that customers in the trial areas may experience lower costs, but Ausgrid has provided little analysis to back this up and has not considered the counterfactual – that is, a consumer-led uptake via the competitive market.

A competitive VPP operator can optimise the operation of customer-owned batteries to maximise returns across the full BESS value stack. The value stack includes customer-focused benefits, including retail and network tariff management, enhanced site reliability, and objectives around renewable energy supply.

A successful VPP operator's optimisation strategy will be designed to deliver these customer priorities, and to respond to price signals provided through network and retail tariffs and the wholesale energy and FCAS markets. By contrast, a DNSP-owned community battery will prioritise network outcomes over individual customer outcomes. It cannot optimise across the full value stack because it cannot provide the direct customer-focused value that competitive providers can with customer-owned assets – for example DNSP-owned batteries do not help customers improve site reliability or manage demand charges.

Ausgrid's approach is to distribute a dividend to pay out some of this missing value. However, the methodology for determining the dividend and its equitable distribution is unknown, and proposed to be determined by RACE for 2030 through a separate process.

Ausgrid acknowledges that the method for distributing the dividend is also unknown, and that the first dividend won't be paid until at least one year after assets are commissioned. If this trial proposal were a business case, no rational board or CEO would approve it without requiring much more detailed analysis of the expected revenue. The AER cannot be expected to rule on this proposal when the benefits – a crucial aspect - are unclear and reliant on yet-to-be determined external parties and processes.

Further, we question whether the solar dividend benefit is aligned with what the network and system needs. All customers in the trial are slated to get a dividend regardless of how they use energy – that is, whether they alleviate or exacerbate peak demand. The dividend is paid long after the operational behaviour that drives its value occurs and therefore does not incentivise trial customers to reduce or shift their energy use. This approach is inconsistent with the prevailing policy view that a more price-responsive demand side is crucial to managing demand peaks and troughs.

Similarly, enhancing the value of solar exports for trial participants seems to contradict the broadly held view that excess solar has no value to the network now and can negatively impact network stability. This is reflected in the very low or zero value of FiTs

across the NEM, network-imposed export limits and network tariff signals that discourage solar exports.

Non-monetary benefits are arbitrary

The Ausgrid representative at the stakeholder workshop made several comments that "commercial batteries only seek to maximise wholesale revenue," implying that competitive providers prioritise market revenue over customer benefits. Any successful BESS operator will know how important it is to meet customer needs first – e.g. to enhance site supply reliability, reduce demand charges, maximise solar PV output to meet renewable objectives or supplement their supply to avoid a supply capacity upgrade – before trading in the market.

The advantage of a competitive approach is that businesses are highly incentivised to tailor their optimisation strategy to meet customer needs and to adjust this as preferences change over time. Ausgrid would face no such incentive under its trial, which is primarily focused on network outcomes. This aligns with ARENA's findings from the Community Batteries for Household Solar program, which found that "network batteries were more likely to rely on network support revenues while non-network batteries relied more heavily on demand charge reduction and solar-self consumption."[16]

Ausgrid states that the trial will deliver improved health and economic benefits from reduced emissions because of the additional solar but again has not considered the counterfactual. The counterfactual is not zero additional solar PV uptake, as the presentation of benefits suggests, but an ongoing competitive rollout of CER. Further, the proposal removes the $42.6m emissions reduction benefit of the 70 MW of solar PV that customers in that area are self-funding through private investment and smears it as a cost through the standard control services RAB that all Ausgrid consumers pay for.

This appears to be a case of creative accounting – designed to manufacture benefits, justify the trial and shift the costs onto all consumers. Further, this cross-subsidisation is inconsistent with the intent of the ring-fencing guideline and is essentially a carbon tax on all Ausgrid consumers.

The proposal states that "by flattening peaks and troughs in grid demand, Community Power Network batteries can reduce or defer costly network augmentation." However, the two areas identified for the trial do not have a demand / capacity issue that might warrant this trial proposal or justify the considerable amount of capex proposed to be spent through it.

We have analysed substation capacity and demand forecast data using Ausgrid's 2024 DTAPR data[17], finding that:

- Charmhaven will see approximately only 7.7% forecast summer maximum demand reduction between 2020/21 to 2027/28.; and

[16] See: https://arena.gov.au/assets/2024/11/ARENA-Community-Battery-Market-Snapshop.pdf

[17] See: https://www.ausgrid.com.au/Industry/Regulation/Network-planning/DTAPR

- Botany and Mascot will only see approximately 9% increase in summer maximum demand over the same period, likely driven by apartment and residential growth.

Additionally, there is only one minor network investment planned in this area – the Botany Zone Substation 11kV switchgear replacement.

Therefore, we do not consider this justifies the objective of the trial to understand the potential to defer network augmentation.

Even if this were a genuine attempt to reduce or defer network augmentation using network batteries, the proposed expenditure should be subject to alignment with the NER capital expenditure principles and be costed in far greater and with much more transparency than what this proposal offers, given the significant costs to be recovered from Ausgrid customers.

Finally, the proposal indicates that all customers would benefit from "broader network learnings." DNSP-provision of competitive services is not required to deliver these benefits. Ausgrid has failed to explain what this trial would deliver in network learnings over and above what could be achieved under the existing regulatory framework.

It raises more equity concerns than it addresses

Ausgrid's proposal places strong emphasis on equity. It asks whether "network-led orchestration can deliver greater benefits to a wider range of consumers including those without CER and DER than alternative models". While this is noble, it is disingenuous because the trial will create more equity issues than it resolves.

For customers not in the trial areas:

- The trial creates price discrimination through preferential storage tariffs and higher value solar exports for those in the trial area.
- The proposal states that "Ausgrid will apply a lower network charge to electricity generated and consumed within the community" which is inherently inequitable. Putting physics aside, if "local energy" is desirable, the lower network charge should be applied Ausgrid-wide. That would be more equitable and enable a fairer assessment of which rollout model is best.
- It smears a portion of the cost of the batteries across all Ausgrid customers even though they will not be able to access any of their direct benefits.
- It smears the considerable costs of the orchestration function across all Ausgrid customers even those outside the trial areas do not access any direct benefit of this. Ausgrid's argument is that the learnings will be incorporated into "business-as-usual" functions in future. However, we do not know that this will be "business-as-usual" in future - customers should not be required to fund an outcome that might not eventuate.

For customers within the trial areas:

- An unknown, variable and relatively small dividend will not resolve the equity issues associated with CER.

- Ausgrid's considerable advantages (e.g. information access, preferential connections) will disadvantage competitive providers seeking to offer solar, BESS and VPP services in the area and consequently the customers seeking those services.

The draft report for the NEM wholesale market review notes that "network tariffs should encourage a fair and equitable sharing of the costs of the network among electricity consumers including both those who own and do not own CER assets."[18] The AEMC made a similar observation in its *Pricing review*.[19] A trial that creates inequity based on a trial's geographical footprint is not aligned with this observation or the direction of the AEMC review.

Either way, while there are certainly CER equity issues to address, it is not Ausgrid's responsibility to resolve them. Considerable policy effort is going into ensuring that vulnerable households, renters and apartment dwellers can access the benefits of CER, as explained in later section.

Competition is compromised

Ausgrid states that there may be adverse consequences should this proposed project proceed without a trial waiver and/or ringfencing waiver. These adverse consequences exist for a reason – because the rules were written to exclude DNSPs from competitive spaces to protect consumers from market distortion and misuse of market power.

The AER's consultation paper notes that "competition is generally the most efficient way to deliver energy services for consumers" and that "DNSPs are generally not permitted to participate in contestable markets" but that there are "exceptions made to this, for example, where a DNSP can provide a service without damaging competition because of the conditions in the market, because there has been some kind of market failure or because the benefits of DNSP involvement outweigh the risks." The Ausgrid proposal fails all three of these criteria.

The solar PV and battery market in Australia is mature, vibrant and competitive. The ACCC's recent NEM inquiry found that "competition is central to maximise consumer benefits from reforms" and we agree.[20] There is no market failure to address. Even so, it is not DNSPs' role to decide how a market failure should be addressed – that is a matter for governments to decide.

The AER notes that:

> *"As monopoly providers of regulated distribution services, DNSPs could harness their monopoly powers to their advantage and harm the development of competition in markets for other services in contestable markets, including ... in scale, in scope, control over barriers to entry, easier access to financing and information advantages."*[21]

[18] NEM wholesale markets review, draft report, August 2025, p215.

[19] AEMC, The pricing review, Discussion paper, June 2025, p54.

[20] ACCC, Inquiry into the NEM, July 2025, p85.

[21] AER, CPU ring-fencing waiver for EV charging infrastructure, Consultation paper, April 2025, p2.

Allowing Ausgrid to provide competitive services will negatively impact competition in the short and long term, both within the trial areas and NEM-wide through various forms of discrimination outlined below:

- The proposal states that "solar units will only be installed and owned by Ausgrid if targets in our spatial energy plan are not met" but the competitive sector is given no chance to address this gap itself once the plan is published. This approach discriminates in favour of Ausgrid and increases the likelihood of Ausgrid deciding it needs to become the solar provider of last resort.
- Ausgrid proposes to pay a higher FiT for surplus solar to customers in the trial areas, in line with the outcomes of the spatial energy plan. Similarly, the trial proposes to apply a lower network charge to electricity generated and consumed within the community. This is price discrimination and hence creates an advantage for customers in the trial areas for no clear reason. Consumers would be better served if Ausgrid conducted a network-wide spatial energy plan, determined the efficient level of solar across the board, and designed network tariffs/prices that incentivise the efficient level of solar Ausgrid-wide.
- The BESS network tariff will not be offered to competitively-provided BESS either within or outside the trial areas, again introducing a form of price discrimination. A proper trial would allow this tariff to be accessed by all, and hence enable a comparison of whether DNSP-led or market-led CER rollouts provide the best outcomes for consumers.

These points and the no opt-out approach mean that the trial will certainly "discriminate against or crowd out competing service providers" trying to operate in those two areas. The distribution ring-fencing guideline has two objectives, as explained by the AER: to "prevent cross-subsidisation and discriminatory behaviour" by DNSPs.

With respect to discrimination, the guideline contains provisions "that aim to prevent a DNSP conferring a competitive advantage on its related electricity service providers that provide contestable electricity services." Section 4.1 of the guideline sets out specific provisions associated with the obligation to no discriminate and, importantly, the guideline states that a DNSP cannot apply for a waiver of this clause.[22]

Ausgrid says "any impacts upon competition can be monitored and adjusted to address emerging concerns" but it suggests no mechanism to monitor the market or determine what type or level of impact will trigger adjustments. The existing ring-fencing waiver framework applies little to no scrutiny of competition impacts, and DNSPs are largely left to police their own breaches. As noted previously, as far as we are aware, the AER has undertaken no analysis to determine the impact on competition of granting a ring-fencing waiver.

We further note that the proposal contains no detail on how Ausgrid plans to manage conflicts of interest or information advantages. Ausgrid will have an obvious advantage of assessing and approving its own projects over competitive projects in the connection

[22] AER, Ring-fencing guideline, Electricity distribution, February 2025.

process. And there will be no conditions around how fair assessment could be enforced.

Ausgrid wants the trial to continue indefinitely if successful. Allowing the trial to continue indefinitely will almost certainly have a long-term impact on competition – specifically, the disincentive for competitive providers to offer services in that area, to the detriment of those consumers. Similar competition impacts could be expected if the granting of this trial waiver emboldens other DNSPs to put forward similar proposals and Ausgrid to pursue an expansion of the trial.

Transparency is lacking

Ausgrid indicates that the first spatial energy plan will be released just as its first assets are getting installed. This gives it a considerable advantage regarding efficient asset location; the competitive sector has no chance to respond to the insights provided by the data in that plan. Ausgrid also proposes to update the plan annually. This is not frequent enough to be useful to the market and will only serve to entrench Ausgrid's competitive advantage. While the costs of building the capability to deliver the plan will be spread across all consumers, only Ausgrid will benefit from that investment.

Ausgrid proposes to report annually on trial outcomes. Again, this is not frequent enough given the magnitude and potential negative impacts of the trial. Further, the proposal provides no detail on how Ausgrid would show transparency of costs, connection timeframes, etc to show it is not giving itself preferential treatment.

Success criteria

Ausgrid is seeking to continue the trial indefinitely if it is deemed "successful". However, the proposed success criteria are vague and there is little explanation of how trial outcomes will be measured against them. For example:

- Some success criteria are to be assessed against BAU in the network area or NEM-wide, but there is no explanation of how BAU will be defined. These measures of success are meaningless without a clearly articulated counterfactual – that is, a market-led uptake of CER.
- The proposal states that the main measure of success for customers will be the size of the dividend, but Ausgrid provides no indication of the dollar amount that would constitute success or failure.

Similarly, because the trial does not compare different rollout options, it fails to assess the relative costs and benefits of alternative approaches and limits the trial's value in informing broader decision making.

Overall, the proposal lacks an objective framework for determining whether the trial is successful and thus enables no objective assessment of progress and offers no clear basis for decisions around an exit strategy or regulatory reform. Ausgrid must provide clearer success metrics and explain how outcomes will be measured against an agreed counterfactual or other rollout models tested through the trial.

The trial outcomes can be delivered more efficiently in other ways, and with consumer choice

Nexa agrees with the three challenges identified by Ausgrid:

1. Not all customers can access the benefits of CER.
2. Not all CER is deployed efficiently.
3. The rollout of grid-scale renewables and transmission is facing challenges.

The AER also notes that "the trial may lead to increased solar network capacity, improved network utilisation and reduce emissions." The question isn't whether these are worthy outcomes, but rather whether to allow a regulated DNSP to bypass a core NEM design principle when there are other options.

The AER must require Ausgrid to conduct a much more rigorous assessment of alternative options before considering this proposal any further. In Nexa's view, the proposed trial outcomes can be, and are being, delivered in four other ways, detailed below.

By the competitive market

Much of what Ausgrid proposes to do can be delivered by competitive providers.

Installing and maintaining PV and BESS

The rapid uptake of solar PV and batteries has shown that the competitive sector can develop mature, vibrant and competitive markets for CER in Australia. There is no evidence that the competitive market is incapable of delivering the *quantity* of solar and/or BESS that the spatial energy plan might indicate is required, in Botany, Charmhaven or indeed anywhere across Ausgrid's network.

If Ausgrid is concerned about the efficient *location* of CER, then it should prepare and publish the spatial energy plan for the competitive sector to respond to. Submissions to the AEMC's pricing review and the *Integrating distribution system planning* rule change show that CER service providers are crying out for greater transparency of network utilisation and congestion data, and deferment opportunities.

If Ausgrid is concerned about the efficient *use* of CER, then it can influence this greatly through tariff design and pricing, and through cost and time efficient responses to connection applications. A trial tariff framework is already in place to enable Ausgrid to test new tariffs– no waiver is required. Under this framework, Ausgrid can test tariffs that cover its whole network, not just the Botany and Charmhaven areas. Similarly, Ausgrid does not need a trial to determine what tariffs and prices deliver good network and consumer outcomes – the CER sector performs this function as part of normal business.

If Ausgrid is concerned about *equitable access*, it can help reduce the payback period of solar PV and BESS through its tariff design and pricing for all customers, not just those in the trial areas. Other than that, it should leave the competitive sector to design solutions that meet customer needs and align with government policies on equity. This is already occurring, for example through businesses like SolShare, which splits the

energy from a single rooftop solar system and divides it between multiple dwellings, e.g. apartment buildings.

Trading energy services

The proposal states that excess solar will be sold into the wholesale market, either directly or via the battery, and that the benefits will be passed on to trial customers (minus a regulated return). However, the regulatory arrangements for the sale of energy and FCAS by a battery are well established, and consequently the competitive market delivering market trading services is highly evolved. Customers can already access the benefits of wholesale and FCAS market participation – we do not need a DNSP to prove that this can be done.

The Ausgrid representative at the retailer/aggregator stakeholder forum said several times that competitive BESS operators only seek to maximise wholesale revenue – implying that these providers put themselves, not their customers, first. Maximisation of wholesale market revenue is a key value driver. It is a rational and desired response to market prices. Customers will expect their VPP provider to deliver this as it maximises their own return and helps reduce the payback period of their asset. A DNSP-owned BESS focused on network needs is unlikely to generate as much value per kW/kWh as a provider that optimises across the value stack.

Nevertheless, a successful VPP operator will know that the customer's individual needs come first. It will design its service offering to meet the customer's preferences around self-consumption, it will adjust its product/service to ensure those needs continue to be met, and it will provide full transparency along the way. If it fails on any of these fronts, the customer can churn to a business that will deliver for them. Under the proposed trial, Ausgrid would not face any competitive pressure to deliver value or service innovation.

By DNSPs under existing regulatory framework

The AER's innovative trial principles ask whether the proposal "could not otherwise proceed under the existing regulatory framework". There is nothing stopping Ausgrid contracting with competitive providers to deliver the trial objectives, i.e. an increase in CER capacity, increased network utilisation, augmentation deferral, peak demand reduction, emissions reduction, improved power quality and a reduction in over-voltage malfunctions. These outcomes can already be delivered under the existing rules, and indeed the rules incentivise Ausgrid to deliver these outcomes through the procurement of competitive services. If the DMIS does not encourage DNSPs to resolve network issues using opex, as Ausgrid suggests, then this is a much bigger problem to address. The sandbox framework is for testing out new ideas, not for DNSPs to deploy capex to solve problems that opex could.

The proposal also suggests that the trial could inform "future dynamic tariffs" to support efficient commercial BESS uptake and operation. There are already many businesses who have the skills and data to work with Ausgrid to determine what such tariffs might look like, and a trial tariff framework already exists to enable Ausgrid to test those tariffs out. And when tariff trials are designed with consumer input, they have been successfully taken up.

By Ausgrid doing better on tariffs, connections, and data

CER markets in Australia are robust and thriving. Barriers to further uptake are largely within DNSPs' remit to resolve, such as ineffective tariffs, connection costs/delays, and lack of transparency of network data. This was confirmed by Nexa Advisory in its recent report on the untapped potential of C&I CER, which found that C&I uptake is lagging residential uptake and could be accelerated through tariff reform, greater DNSP transparency and the proper enforcement of ring-fencing rules.[23]

Ausgrid states that "the current uncoordinated rollout of solar and storage does not ensure the right assets are always in the right locations." We agree, but there is much more Ausgrid can be doing to provide transparency and price signalling to the market to encourage the efficient location of CER. The CER sector recognises that greater transparency of network data is needed to support efficient investment decisions. The spatial energy plan is a great initiative, and it can be delivered under the existing regulatory framework. Developing and publishing this plan would give competitive providers access to the information they need to innovate, locate and operate CER efficiently, and offer non-network solutions to Ausgrid. Further, feedback to the AEMC's *Pricing review* shows that network tariff signals often work against market signals and consequently may be the cause of inefficient CER behaviour.

If DNSPs address these issues we'll have given the competitive rollout the best chance of delivering the broadest benefits. The trial proposal appears to be an attempt by Ausgrid to avoid having to do better on these fronts.

Through policy and regulatory initiatives

Many of the challenges Ausgrid proposes to address through the trial are already being considered by governments through various policy and regulatory initiatives. For example:

- **Financial barriers to investment.** The Federal Government's Cheaper Home Battery Scheme has seen the residential uptake of BESS skyrocket. Uptake in NSW has also been further accelerated by the Peak Demand Reduction Scheme. The RET continues to support the uptake of solar PV across all customer types. While there is certainly more that can be done to help C&I customers overcome barriers to BESS investment, Nexa's recent report identified several ways this can be addressed (see below) and it is an active policy consideration through the PDRS in NSW.
- **Equity.** Ausgrid's proposal notes that not all consumers can access the benefits of CER. While this is certainly true, it is an active policy issue that governments at all levels are trying to address. The Federal Government recently confirmed that subsidies under the Cheaper Home Batteries Program will be available to strata

[23] See: https://nexaadvisory.com.au/web/wp-content/uploads/2025/09/Nexa-Advisory-report_Commercial-and-Industrial-CER.pdf

communities,[24] and the NSW Government is addressing strata barriers to solar PV uptake through its Solar for Apartment Residents program.[25]

- **Integration of CER.** Considerable work is underway to improve CER coordination and integration, including through the AEMC's work plan and the various initiatives under state and federal CER roadmaps. Relevant to this trial proposal, the Federal Government's CER Roadmap has a dedicated work stream looking at the roles and responsibilities of DNSPs and what a future "DSO" model might look like. That work stream is well underway with considerable stakeholder involvement.
- **Network pricing.** The AEMC *Pricing review* is an in-depth look at the fundamentals of network and retail pricing, including the interaction between network tariffs and equity. Stakeholders are highly engaged on that review, and there is appetite for fundamental changes.

We question whether it is necessary or sensible to trial matters that are already being addressed through other, more broad-reaching regulatory work. Given that this proposal is for a trial only, not permanent change, Ausgrid's proposal threatens to undermine - rather than support - these initiatives.

With respect to the C&I sector specifically, Nexa's recent report puts forward some policy recommendations to accelerate uptake, for example through amendments to the Capacity Investment Scheme, the Wholesale Demand Response Mechanism, and through strong transparency and data sharing obligations on DNSPs.[26]

[24] See: https://www.pv-magazine-australia.com/press-releases/federal-government-confirms-strata-inclusion-in-solar-battery-scheme/?utm_source=chatgpt.com

[25] See: https://www.nsw.gov.au/grants-and-funding/solar-for-apartment-residents-soar-grant-program

[26] See: https://nexaadvisory.com.au/web/wp-content/uploads/2025/09/Nexa-Advisory-report_Commercial-and-Industrial-CER.pdf

Proposed trial conditions

Nexa Advisory does not support this proposed trial waiver. The AER must reject it and instruct Ausgrid to properly address the matters raised in this submission. However, if the AER is minded to approve this proposal as written, the approval must include the following:

- Require Ausgrid, in consultation with stakeholders, to identify more specific issues or impediments that are within a DNSP's regulatory remit to resolve.
- Create a more targeted geographic area, significantly reduce customer numbers, and consequently lower the costs.
- Require Ausgrid to tender with third party/ies to build, own and operate the assets
- Prohibit Ausgrid from becoming the solar supplier of last resort.
- Require that customers opt in to the trial and be able to opt out.
- Require Ausgrid to publish the spatial energy plan at least one year before it starts rolling out projects.
- Require Ausgrid to apply some of the proposed arrangements (e.g. lower network charges, solar payments) in areas outside the trial, to get a fairer assessment of consumer outcomes under DNSP-led vs market-led CER adoption.
- Impose strict ring-fencing conditions regarding discriminatory access, information sharing, etc.
- Impose strict obligations regarding transparency of costs, benefits, tariff structures and pricing.
- Impose a strict obligation on Ausgrid to approve a competitive market connection application over any internal proposal.
- Require a much higher frequency of reporting that the annual reporting Ausgrid proposes.
- Require an independent assessment of the impact on competition and consumer at various stages.
- Stage the trial appropriately to enable collection and assessment of results, and the ability to cancel the trial at any point should evidence of consumer harm, impact on competition, cost blowouts, etc. arise.
- More clearly define the trial's success criteria, to better inform any future regulatory change.
- Decide now what happens after the trial ends – specifically, require that the assets be sold off. Ausgrid cannot be allowed to continue the trial indefinitely, nor create a long-term inflation of the RAB through short-term initiatives such as this.

Conclusion and recommendations

This is a disingenuous and ill-considered proposal.

We understand that this is the first sandbox proposal to make it out of the initial discussion stage, and it therefore sets a very low bar for future proposals. The proposal lacks any evidence to support its purported costs, benefits and learnings, and through it Ausgrid attempts to blatantly flout several regulatory processes.

It is hard to understand how the AER could entertain a proposal that so obviously favours Ausgrid to the detriment of consumers and the competitive market and runs contrary to the direction of government policy. By publishing the proposal and accompanying consultation paper, the AER has created time-wasting distraction that could have been avoided.

Ausgrid is attempting to present itself as an innovator concerned with equity in order to:

- circumvent a fundamental principle of NEM design and deliver an entirely self-interested policy outcome;
- impose substantial costs on consumers, for limited benefits and largely proprietary learnings;
- circumvent the rigour and scrutiny of key regulatory processes, including the RIT-D and ring-fencing frameworks;
- avoid improving its data transparency, network tariffs and connection arrangements for all Ausgrid customers; and
- avoid implementing available innovation in its business practices that would bring genuine benefits to customers.

These outcomes are inconsistent with the achievement of the NEO. If the AER is to ensure that "consumers are better off now and into the future" and that consumers "pay no more than necessary for energy to their homes and businesses" it must see this proposal for what it is and either reject it outright or require Ausgrid to provide evidence of why its stated objectives and learnings cannot be delivered under the existing regulatory framework or by the market.

In Nexa Advisory's view, Ausgrid's purported objectives can be better achieved through implementation of the following recommendations:

5. **Ensure competitive neutrality.**
    a. **Strengthen enforcement of the existing ring-fencing provisions.** The Australian Energy Regulator (AER) must uphold current ring-fencing arrangements and clarify their application to non-network investments, including distribution-scale batteries.
    b. **Enhance the ring-fencing waiver process.** The AER should cease the consideration of further waivers until it assesses the impact of waivers already granted. This would allow time to assess the effectiveness of these models before further waivers are granted.

6. **Undertake an independent review of distribution networks and address the capex bias.**

   Scope should include:

   a. Effectiveness of DNSP transparency obligations, connection processes and data access;

   b. Compliance with and sufficiency of ring-fencing to protect competition and innovation;

   c. Verification of network communications that shape public perceptions of CER;

   d. Benchmarking of best-practice international approaches to data sharing, network economic framework and cost recovery mechanisms such as the Totex model adopted in the UK.

To avoid inefficient network asset growth in the current cost of living environment, the AER and other state regulators such as the New South Wales Independent Pricing and Regulatory Tribunal - must provide better regulation and oversight of regulated capital expenditure by DNSPs.

7. **Address other barriers to facilitate CER uptake.**

   a. Enforce obligations for DNSPs to share granular data on network operations, hosting capacity, and constraints. This is critical to enabling competitive, low-cost solutions and avoiding unnecessary network investment.

   b. Require DNSPs to standardise and streamline processes for new network connections, enforcing penalties for delays, and to modernising tariffs to reward CER across all customer segments.

8. **Address other barriers specific to C&I CER uptake.**

   a. Create a dedicated Capacity Investment Scheme 'flex agreement' tender scheme to underwrite demand-side participation by C&I customers, with lower entry thresholds (e.g. 1 MW).

   b. Expand Clean Energy Finance Corporation (CEFC) and Australian Renewable Energy Agency (ARENA) support – concessional finance and grants targeted at mid-scale C&I installations, including storage and electric fleet charging.

   c. Accelerate reforms to value energy services and contract markets – including tariff reforms to facilitate investment and ensure innovative pricing that rewards flexibility, exports and CER integration for C&I consumers. These reforms should align with the recent National Electricity Market Review.

   d. Strengthen DSP mechanisms – expand Wholesale Demand Response Mechanism (WDRM) eligibility and enable multi-site participation.

About Nexa Advisory

Nexa is an advisory firm with an unwavering focus on accelerating the clean energy transition, in a way that provides secure, reliable, and affordable power for consumers of all types.

Nexa Advisory is a team of experienced specialists in the energy market, policy and regulation design, stakeholder engagement, and advocacy. We work with public and private clients including renewable energy developers, investors and climate impact philanthropists to help them get Australia's clean energy transition done.

Nexa Advisory stands at the nexus of the energy sector's complex web of stakeholders. We support and direct their dialogue so as to remove the roadblocks to the transition.

We have a track record in policy creation, advocacy, political risk assessment, and project delivery. We are holistic in our approach and deliver solutions with people in mind, and commercial intent.