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Dear Ms Ryan

PROPOSED AMENDMENTS TO THE ELECTRICITY NETWORKS ACCESS CODE 2004

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission in response to the proposed amendments to the Electricity Networks Access Code 2004 (ENAC). This covering letter outlines some high-level principles and observations regarding the proposed amendments to the ENAC. AEMO's detailed submission in response to the proposed amendments to the ENAC is outlined in Attachment 1.

The proposed amendments to the ENAC, as set out in the Energy Transformation Taskforce's May 2020 Consultation Paper¹, provide the means by which other initiatives (being implemented concurrently) will support Western Power's transition to its new business model. The other initiatives include a review of the Technical Rules, the roll-out of advanced metering infrastructure, participation in Project Symphony under the Distribution Energy Resources Roadmap (DER Roadmap)², the 100 MW Challenge, and distribution-level trials of community storage and stand-alone power systems (SAPs). It is important to ensure that the long-term interests of customers are the driving impetus for all current and future initiatives, and these be consistent with the proposed amended ENAC Code objective.

AEMO notes that Western Power's business need to increase opportunities for new technologies, maximise network utilisation and improve the access arrangement process is driving the proposed amendments to the ENAC³. It is imperative that the amendments align with the policy intent and design objectives of the Minister for Energy's reforms to the Wholesale Electricity Market (WEM) and the DER Roadmap,⁴ and that the amendments are assessed in terms of the extent to which they will deliver benefits to customers.

The reforms will necessitate wider and deeper coordination between Western Power, AEMO, network end-users, market participants and retail customers than in the past to deliver real benefits. Any misalignment on roles and responsibilities under the network, WEM and DER

¹ Energy Transformation Taskforce (2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May.

² Energy Transformation Taskforce (2019) *Distributed Energy Resources Roadmap*, December.

³ These are three objectives that the proposed amendments to the ENAC are designed to meet. Please see: Energy Transformation Taskforce (2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May, p.6.

⁴ The DER Roadmap was publicly released in April 2020.

reforms will exacerbate gaps in areas of responsibility, unclear operational boundaries, duplication of costs (or avoidance of costs), poor investment signals, lack of adequate consumer protections, lack of market transparency, and impediments in operational and planning timescales to ensuring the secure and reliable operation of the power system in the South West Interconnected System (SWIS).

In drafting this submission, AEMO considered the full suite of reforms, including the current Technical Rules Review, as well as AEMO's existing, transitional and likely new functions under the WEM Rules, to understand the potential effects of the proposed amendments to the ENAC.

Many of Western Power's key initiatives have been, and may continue to be, deployed in the form of 'off-market' or 'non-wholesale market' solutions. These initiatives lay a foundation for future initiatives that may potentially represent material volumes of energy and/or capacity, such that there is potential for a distortionary or compromising effect on the wholesale market and coordinated management of power system security. This may impact market transparency and efficiency and, in turn, may adversely affect AEMO's ability to manage the secure operation of the power system.

In AEMO's view, the new arrangements enabled by the proposed amendments to the ENAC (as facilitated by revised Technical Rules) will likely drive the determination of role responsibilities in those functional areas for which heightened coordination will be required, such as reliability, stability, system restart and under frequency load shedding (UFLS). AEMO is concerned that the new arrangements may not adequately reflect:

1. the core functions conferred on parties under the WEM Rules, including AEMO's "function of ensuring that the SWIS operates in a secure and reliable manner for the purposes of regulation 13(1) of the WEM Regulations" in accordance with WEM Rule 2.2.1;
2. the need for shared responsibilities with respect to the power system, market and network operations; and
3. the acknowledgement that the network business operates within the context of a power system.

Given the above, it is AEMO's view that the proposed amendments to the ENAC may result in a blurring of the delineation of roles and responsibilities defined across the full suite of regulatory instruments in the WEM. This may potentially compromise the coordination required to ensure power system security, particularly if the visibility of system and market impacts, or controllability in either planning or operational timeframes is not addressed.

If you would like to discuss any matters raised in this submission, please contact [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Attachment 1: AEMO's detailed submission in response to the proposed amendments to the ENAC

Redundant references

AEMO notes that the ENAC refers to the "Independent Market Operator established under the *Electricity Industry (Independent Market Operator) Regulations 2004*" in section 9.23(c). The entity and the instrument are now redundant, and this section requires updating.

- AEMO suggests that –
 - Section 9.23(c) is redrafted, to replace the redundant reference with references to 'AEMO' and the '*Electricity Industry (Wholesale Electricity Market) Regulations 2004* and Wholesale Electricity Market Rules' respectively.

AEMO excluded from matters pertaining to the Wholesale Electricity Market

Neither the Energy Transformation Taskforce's May 2020 Consultation Paper⁵ nor the current drafting of proposed ENAC amendments provide for AEMO's input into WEM-related matters as they pertain to the new arrangements enabled by the proposed ENAC amendments. While the drafting inserts references to the 'Wholesale Electricity Market' and requires parties to assess impacts to the WEM when making decisions in regard to the regulatory test, disputes and network planning, the drafting does not require those parties to consult with, or seek advice from, AEMO, or to take AEMO's views into account. AEMO considers that because of its central role in system and market operations that its visibility and expertise would be useful inputs into key ENAC considerations; and that AEMO should be consulted on issues that impact its role.

For example, it is not clear whether replacing the redundant terms in section 9.23(c) with references to 'AEMO' and the '*Electricity Industry (Wholesale Electricity Market) Regulations 2004* and Wholesale Electricity Market Rules' in regards to the regulatory test will be sufficient to meet the design objectives of the new arrangements as they pertain to AEMO's involvement.

Other ENAC sections are provided below by way of further examples (italics added):

- Proposed new section 5.38 (in the section entitled "Assessment of model documents") requires that the Economic Regulation Authority (ERA) not have regard to any provisions that are "inconsistent with section 2.4C or otherwise inconsistent with *the operation of security constrained economic dispatch in the Wholesale Electricity Market*" when determining if the standard access contract, applications and queuing policy or contributions policy (as applicable) included in an access arrangement is consistent with the ENAC's Code objective and specified sections in Chapter 5 (as applicable).
- Proposed new section 6A.6 (in the section entitled "Net Benefit Valuation Guidelines") requires the ERA to make and publish guidelines that provide guidance on "acceptable methodologies for valuing net benefits by a service provider, which methodologies must include, but are not limited to, for the SWIS, *consideration of changes in costs for participants in the Wholesale Electricity Market*".

⁵ Energy Transformation Taskforce (2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May.

- Proposed new section 10.21(b) (in the section entitled “Arbitrated terms for reference services”) requires that the arbitrator must not make an award specifying the terms of an access contract for a reference service that is inconsistent with “section 2.4C or *the operation of security constrained economic dispatch in the Wholesale Electricity Market*” (see also proposed new section 10.22(b)(iii)).

The determination of likely changes in costs for wholesale market participants and the assessment of consistency with the operation of security constrained economic dispatch are matters that pertain to AEMO’s functions under the WEM Rules and should entail AEMO being consulted. The current drafting of proposed amendments to the ENAC does not provide for AEMO input, or otherwise recognise the need for a ‘single source of truth’ that all parties must leverage to coordinate planning and decision making.

- AEMO suggests that –
 - the current drafting of proposed amendments to the ENAC is revised to require that the ERA consult with AEMO:
 - before making a determination under proposed new section 5.38 to ensure consistency with *the operation of security constrained economic dispatch in the Wholesale Electricity Market*; and
 - when addressing changes in *costs for participants in the Wholesale Electricity Market* in the net benefit guidelines under section 6A.6;
 - the current drafting of proposed amendments to the ENAC is revised to require that the arbitrator consult with AEMO:
 - before making an award under sections 10.21 and 10.22 to ensure consistency with *the operation of security constrained economic dispatch in the Wholesale Electricity Market*.

Technical Rules Objective

Under section 12.53, when deciding whether to approve a Technical Rules amendment proposal, the ERA must have regard to a number of matters, including the ENAC’s Code objective and Chapter 12 (which includes the Technical Rules objectives).

The July 2019 Information Paper⁶ stated that the Taskforce’s intent was to “expand the objectives of the Technical Rules to include considerations of reliability and security of the electricity network and system”. While this integrated approach provides better alignment between the Technical Rules objectives, the ENAC Code objective⁷ and the WEM objectives⁸, AEMO notes that intent has not been reflected in the drafting of the proposed amendments to the ENAC.

⁶ Energy Transformation Taskforce (2019), *Improving the Technical Rules Change Management Process: Information Paper*, July, p.9.

⁷ Under section 2.1 of the ENAC.

⁸ Under clause 1.2.1 of the WEM Rules.

An element of the desired integration of the Technical Rules is to ensure that a broader participation in the Technical Rules process is possible for interested stakeholders. The proposed amendments to the ENAC would enable parties other than Western Power to submit proposed changes to the Technical Rules. In the section entitled “Amendments to technical rules”, proposed new section 12.51(c) would allow the ERA to reject a proposal that has not been developed in accordance with the ERA’s processes and procedures made under section 12.50A.

- AEMO suggests that -
 - Amendments are made to require ERA to identify the specific grounds for rejection and to enable a rejected submission to be amended and resubmitted upon addressing the grounds for rejection.

The WEM reforms will implement both constrained network access and security-constrained economic dispatch, necessitating more extensive and deeper coordination between the network, the power system and the wholesale market. In the absence of a centralised regulatory instrument to achieve this coordination, it is imperative that there is alignment in the objectives of the individual instruments that prescribe the frameworks in which the network, the power system and the wholesale market operate. This will ensure that successive Technical Rules amendments create and maintain closer operational alignment between the network and the power system, thereby supporting conditions that allow the WEM Objectives to be achieved.

- AEMO suggests that -
 - Section 12.1 is amended so that the Technical Rules objectives include considerations of reliability and security of the network and the power system.

The WoSP and the WEM Rules

AEMO notes that the proposed amendments to the ENAC define the WoSP in section 1.3 as “the document published by the Minister from time to time as the Whole of System Plan for the efficient development of the SWIS over a 20-year period”.

AEMO understands that the WEM Rules will be subsequently amended to provide ongoing arrangements for the development and publication of the WoSP (subsequent to the current WoSP which is being published under the Access Code). AEMO’s preference is therefore to reflect a reference to the WEM Rules within the definition of WoSP, noting that the drafting for proposed amendments to the ENAC will insert a definition for ‘Market Rules’ (the WEM Rules).

It is important to create a clear linkage between the WoSP, which is a document created as a requirement of the WEM Rules, to the new requirement under the ENAC to implement a “project specified as a priority project in a whole of system plan”. It should be noted that, to make the concept of a ‘priority project’ operable, the aforementioned amendments to the WEM Rules will need to specify what is a ‘priority project’ to ensure that it can be implemented under the new arrangements put in place by changes to the ENAC.

- AEMO suggests that the ENAC and WEM Rules be subsequently amended–
 - The WEM Rules be amended to define a priority project

- Section 1.3 of the ENAC is amended in regard to the definition of 'Whole of System Plan' to insert as underlined, a reference to the WEM Rules as follows:

"whole of system plan" means the document published under the Market Rules by the Minister from time to time as the Whole of System Plan for the efficient development of the SWIS over a 20-year period.

Managing consequential changes to the WEM Rules

The proposed amendments to Chapter 12 of the ENAC do not provide for a mechanism to require the making of consequential changes to the WEM Rules resulting from an amendment to the Technical Rules to ensure ongoing alignment of this regulatory instruments. That is, the drafting neither requires the ERA consider what and whether consequential changes are needed to the WEM Rules when making its determination on a Technical Rule change submission, nor requires that any party subsequently submit a rule change proposal to the Rule Change Panel under the WEM Rules.

While any party may submit a rule change proposal under the WEM Rules, where there is no express obligation placed on a party to reflect Technical Rules changes in the WEM Rules, there is a material risk of gaps and/or divergence emerging between the instruments over time. Operational misalignment will result where no party is required to undertake coordinating action between the two instruments.

- AEMO suggests that -
 - to ensure there is ongoing alignment in the practical operation of the Technical Rules and the WEM Rules, Chapter 12 of the ENAC be amended to:
 - place an obligation on the ERA to assess whether consequential changes are required to the WEM Rules; and
 - place an obligation on a specified party to develop and submit a rule change proposal to the Rule Change Panel under the WEM Rules.
 - Provision should also be made (in other instruments where necessary) to give the relevant parties both functions, and the ability to cost recover, for developing a rule change proposal for consequential changes to the WEM Rules.

Wholesale Electricity Market vs 'market'

The drafting of proposed amendments to the ENAC inserts a definition for 'Wholesale Electricity Market' -

"Wholesale Electricity Market" which means the market referred to in section 122(1) of the *Electricity Industry Act 2004* (WA).

While the ENAC has a number of references to a 'market' it does not define this term⁹. It is unclear how 'market' relates to 'Wholesale Electricity Market', in respect of which AEMO is conferred functions under the WEM Rules.

⁹ In Chapter 1 – Introductory of the ENAC.

The ENAC's 'Introduction' provides a description of the ENAC which suggests the "Wholesale Electricity Market" is part of the 'market' –

This Code establishes a framework for third party *access* to electricity transmission and distribution networks with the objective of promoting the economically efficient investment in, and operation and use of, *networks* and *services of networks* in Western Australia in order to promote competition in markets upstream and downstream of the *networks*.

AEMO notes that sections 9.14(b)(i), 9.20(b)(ii) and 10.46 require the ERA to be satisfied that the service provider has applied the regulatory test properly in regard to a proposed major augmentation "using *reasonable market development scenarios* which incorporate varying levels of demand growth at relevant places" (italics added).

Relevantly, the WEM Rules require AEMO to develop the WEM Electricity Statement of Opportunities (ESOO), which presents AEMO's Long Term Projected Assessment of System Adequacy for the SWIS in Western Australia¹⁰. AEMO's analysis for the ESOO includes the development of demand growth scenarios which take into account factors such as the impact of behind-the-meter PV, electric vehicles, new block loads, large-scale renewable generation, and the effect of rule change proposals under the WEM Rules and WEM reviews (and reforms).

A lack of coordination on matters related to the Wholesale Electricity Market, in this case, the use of market development scenarios by the service provider and the ERA under the ENAC with AEMO's functions under the WEM Rules, could exacerbate sub-optimal network investment, create otherwise avoidable costs for power system operation, and result in unintended costs to market participants and consumers.

- AEMO suggests that the current drafting of proposed amendments to the ENAC is revised to require –
 - the service provider to consult with AEMO:
 - when applying the regulatory test to proposed major network augmentation under sections 9.14(b)(i), 9.20(b)(ii) and 10.46 with respect to *using reasonable market development scenarios*; and
 - the ERA to consult with AEMO:

¹⁰ The ESOO reports AEMO's peak demand and operational consumption forecasts across a range of weather and demand growth scenarios for the 10-year Long Term PASA Study Horizon for each Capacity Year in that horizon. Operational consumption refers to electricity supplied from the transmission grid over a period.

- before making an assessment under sections 9.14(b)(i), 9.20(b)(ii) and 10.46 of the service provider's use of *reasonable market development scenarios*.

The WoSP and the concept of a 'priority project'

AEMO notes that the concept of a 'priority project' has been identified in the Whole of System Plan, and a 'priority project' is not proposed to be subject to the regulatory test¹¹. It is still necessary to ensure that appropriate governance, analytical rigour and decision-making independence underpins the determination of what constitutes a 'priority project'. For these projects, the WoSP is to replace the regulatory test conducted by the ERA, as explained in the May 2020 Consultation Paper¹²:

The WOSP performs a similar function to the regulatory test and NFIT as it determines the best network investment options, or 'priority projects' from a system-wide perspective in terms of solution, size and timing to achieve reliability and security requirements at the lowest cost.

Reference to the WoSP performing a "similar function to the regulatory test and NFIT" implies that this function is similar but not identical. This necessitates that the process to determine what constitutes a priority project needs to be clearly articulated and that the roles and responsibilities that support this determination must also be made clear. It is important to ensure that the roles and responsibilities in respect of the WoSP do not create inappropriate conflicts of interest. If the author of the WoSP performs the dual role of determining the business case for the 'priority project' and concurrently acting as the mechanism to approve the 'priority project', this would not satisfy regulatory best practice. It is potentially the case that the author of the WoSP could be the investor, operator and approver of the 'priority project' which would constitute an inappropriate conflict of interest. The roles, responsibility and process to generate the WoSP must be clear and comprehensive as the potential implications of a priority project and the conclusions of the WoSP are likely to have a significant impact on the security and reliability of the power system.

AEMO understands that the WA Government's present position is for the WoSP to be a document under the auspices of the Minister for Energy and that the Government will make the final decision on roles for developing future versions of the WoSP. AEMO considers that it is well-placed to carry out the system planning and market modelling components of future versions of the WoSP because:

- AEMO has a central role in power system and market operation in the WEM;
- AEMO is responsible for the Integrated System Planning in the NEM jurisdictions;
- AEMO's status is that of an independent entity; and
- AEMO's constitution requires the organisation to deliver best outcomes for consumers.

AEMO is conscious that developing the WoSP would need coordinated input from the regulated network operator. However, AEMO considers that the role of the regulated network operator

¹¹ See proposed new section 9.24B of the ENAC.

¹² Energy Transformation Strategy, *Proposed Changes to the Electricity Networks Access Code: Consultation Paper*, May 2020, p.22.

should be somewhat at arm's length to ensure independence of the WoSP. AEMO considers that the WoSP will require consultation with market participants and other energy stakeholders on aspects such as assumptions, and policy guidance by Government. AEMO therefore further recommends that the WEM Rules outline the roles/responsibilities for development of the WoSP and that due consideration is given to the importance of independence in the development of the WoSP, including priority projects.

- AEMO suggests that the current drafting of proposed amendments to the ENAC is revised to require –
 - The role of priority project in respect of Western Power's alternative options strategy and obligations defined in proposed new sections 6A.3 and 6A.4 in the section entitled "Alternative options strategy and vendor register" is made clear;
 - The WoSP contain guidelines that provide guidance as to:
 - the roles and responsibilities associated with the network operator and the system operator; and
 - the factors that are required to be taken into account when the WoSP determines what constitutes a priority project.
 - These guidelines should be commensurate with those required of the ERA in section 6.56 of the ENAC for the factors determining the consideration of the New Facilities Investment Test.

The new facilities investment test and the concept of a 'priority project'

Section 6.52 of the Access Code sets out the new facilities investment test. The purpose of a new facilities investment test is to determine whether, or to what extent, the new facilities investment can be added to the capital base of the network service provider and recovered through regulated network tariffs applied to users of the network. The proportion of the new facility investment that does not pass the test would need to be recovered from alternative means, notably any direct beneficiaries of the new facility investment. In the case of a 'priority project', the proposed amendments to the ENAC appear to imply that there is no potential for the 'priority project' to result in, or arise from the requirements from, a direct beneficiary in whole or in part. The proposed amendments to the ENAC in respect of a 'priority project' appear to conflate the separate purpose and function of the regulatory test and the new facilities investment test, which could be detrimental to the costs incurred by regulated network tariff customers.

- AEMO suggests that the current drafting of proposed amendments to the ENAC is revised to require –
 - The extent to which a 'priority project' may result in, or arise from the requirements from, one or more direct beneficiaries and, consequently, the extent to which a direct beneficiary should incur some proportion of the capital cost of that project.

Complexities in determining the case for a 'priority project'

There are many complexities and vagaries when establishing scenarios on which modelling is conducted. A 'priority project' arises from the WoSP and the scenarios it contains. The process to

determine appropriate scenarios is inherently subjective, though the basis to underpin the approval of a 'priority project' must weigh up the expected risks associated with undertaking and not undertaking the investment. This is expected to necessitate the determination of a single "likely outcome" scenario that is consistently used for multiple purposes, be that the WoSP, the ESOO or other planning processes. This will necessitate appropriate coordination and involvement of relevant parties. A 'priority project' may emanate from a range of drivers, such as to ensure power system reliability and/or power system security. The incorporation of consideration pertaining to power system security such as system strength and voltage stability into a modelling framework is extremely complex. AEMO considers that it is likely that power system security considerations will be an expanding driver of network and market investment that warrant the development of modelling frameworks that appropriately represent the inherent complexity of such drivers.

- AEMO suggests that the current drafting of proposed amendments to the ENAC and the WEM Rules is revised to require –
 - The WEM Rules be amended to define what a priority project is and what objective a priority project serves as a basis to define the factors that the "likely outcome" scenario must address;
 - The ENAC be amended to define the process to determine the business case for the existence of a priority project; and
 - The ENAC explicitly defines how a priority project relates to other obligations of the network service provider and AEMO.

Misalignment with the DER Roadmap

AEMO notes that section 105(1)(cb) of the *Electricity Industry Act 2004* states that the ENAC may make provision for or in relation to "the regulation of the powers of the Electricity Networks Corporation ... to provide stand-alone power systems or storage works". The Explanatory Memorandum to the Electricity Industry Amendment Bill 2019, which amended section 105(1)(cb), stated with respect to ENAC amendments:

The Government does not intend for Western Power to use storage works for the purposes of participating in the WEM (including in respect of the provision of essential system services or providing retail energy services to customers).

The intent is to require Western Power to develop a business case for deployment of stand-alone power systems (SPS) and storage works for submission to the ERA, as part of the access arrangement revision process. The business case would need to address available alternatives, including procurement of an SPS or storage works solution to an identified network need from a third party as an operational rather than capital expense. The provision of SPS or storage works by Western Power itself would not be a forgone conclusion but would depend on the business case.

The May 2020 Consultation Paper¹³ in section 3.1.2 sets out a proposal for third party services through:

- improved ‘alternative options’ arrangements in the form of a ‘alternative option service contract’ for non-network solutions from a third-party provider; and
- a Network Control Service (NCS) that is dispatched in accordance with the WEM Rules.

The proposed amendments to the ENAC would insert a new Chapter 6A to enable the proposal. Section 6A.7, for example, specifies requirement for the ‘model alternative option service contract’. The ERA must consider these requirements when deciding whether to approve the model contract.

While the proposed amendments to the ENAC do not explicitly limit Western Power from ‘owning’ storage works, the proposed amendments with respect to ‘alternative options’ would allow Western Power to demonstrate a business case supportive of it owning storage works. At present, Western Power has deployed a number of batteries in the community, such as the battery used in Meadow Springs to manage a network constraint caused by high levels of solar PV.

AEMO notes that the proposed amendments to the ENAC would place a requirement on Western Power to demonstrate that any proposed non-network (or network) solution is the most economically prudent and efficient, and for the ERA to approve Western Power’s business case. AEMO notes that ‘most economically prudent and efficient’¹⁴ is a term that pertains to Western Power’s costs as an operator and therefore the costs to its end-use customers. This does not fully reflect the opportunity cost to potential third-party suppliers and the broader community and market where the asset is owned by Western Power. A range of market services can be provided by a storage facility for which Western Power is prevented from supplying on the basis of the *Electricity Corporations Act 2005*. This potential underutilisation of capital relative to the full suite of benefits and services that are potentially available should be addressed in the business case in respect of an alternative delivery model where the ownership or operation of the asset is a third-party provider.

The drafting of proposed amendments to the ENAC would support the use of ‘multi-function assets’ (as per section 6.86(a) of the ENAC) such as storage works as network facilities for both regulated and unregulated purposes to generate revenue, including revenue from participation in the wholesale market¹⁵:

Distribution connected storage works would be considered a ‘multi-function asset’ as the storage works are able to provide both regulated network support services and unregulated (for the purposes of the Access Code) essential system services and/or energy arbitrage services.

¹³ Energy Transformation Strategy, *Proposed Changes to the Electricity Networks Access Code: Consultation Paper*, May 2020

¹⁴ Referred to in the Energy Transformation Taskforce (2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May. Page 9

¹⁵ Energy Transformation Taskforce (2020), *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May, p.21.

This characterisation of the role of storage, Western Power's ownership of storage and the services to be provided by storage under the ENAC is, in AEMO's view, fundamentally at odds with the *Distributed Energy Resources Roadmap* released by the Minister for Energy in April 2020¹⁶ and the *Electricity Corporations Act 2005*. This is due to the rightful restrictions on Western Power participating in the Wholesale Electricity Market. This is because using part of a regulated asset to provide wholesale services in a competitive market is likely to raise questions over fairness from other potential providers of those services in the instance that Western Power were the owner and operator of the asset from which these services are provided.

The DER Roadmap recognises that the existing regulatory framework does not enable the ownership and cost recovery of distribution batteries by Western Power "where a market for storage services to Western Power does not emerge to resolve network needs where it is efficient"¹⁷. Consequently, the DER Roadmap concludes that more guidance is needed within the regulatory framework on how third party delivered community battery models can deliver services across the value chain, including to Western Power.

AEMO is also of the view that the DER Roadmap is aligned to WEM objectives in that any deployment of DER must to the greatest extent meet the objective of encouraging competition to deliver services to the network, and to the market. Installing a framework that permits regulated monopolies to deploy DER must include protections designed to meet this objective. AEMO recognises that there is a range of ways to provide the services required in relation to the power system and network, from mandated standards, regulated provision, a contract, or a market.

The DER Roadmap accepts that to mitigate the near-term "system security risks", Western Power will deploy its own distribution storage works throughout 2020¹⁸. However, in AEMO's view, this should be a trial and this solution should not be an ongoing solution unless the trial demonstrates successful results. The DER Roadmap recommends that Western Power develops a plan highlighting network issues that storage can help alleviate, and seeks market input on an approach to the widespread deployment of distribution storage in 2021-2024 and beyond. A variety of third-party models is expected to emerge to provide services to Western Power.

- AEMO suggests that –
 - the current drafting of proposed amendments to the ENAC is revised to include prescription that:
 - clarifies that 'economically prudent and efficient', as it pertains to Western Power's business case, and the ERA's assessment of that business case, includes consideration of the economic costs of crowding out third-party provision of storage works (including equipment for SPS), and the actual or potential future impact of the business case on the competitive provision of the service by third-party providers.

¹⁶ Energy Transformation Taskforce (2019), *Distributed Energy Resources Roadmap*, December.

¹⁷ Energy Transformation Taskforce (2019), *Distributed Energy Resources Roadmap*, December, p.46.

¹⁸ The ten preliminary locations that Western Power have identified are Canning Vale, Dunsborough, Ellenbrook, Kalgoorlie, Leda, Parmelia, Port Kennedy, Singleton, Two Rocks, and Wanneroo.

- Western Power should not be able to be registered as the Financially Responsible Market Participant or be able to sell market service using part of a regulated asset.
- in the case of the current community batteries, requires the operation of these batteries for unregulated services to be undertaken by an independent party (such as under a lease or similar contractual arrangement).

Increasing opportunities for new technologies and the Network Opportunities Map

One of the objectives of the proposed amendments to the ENAC is to ensure that opportunities for new technologies are increased¹⁹. Within the proposed amendments to the ENAC is that Western Power be required to publish a 'Network Opportunities Map' and separately AEMO publish a 'Congestion Information Resource'. AEMO recommends these respective publications require appropriate coordination between AEMO and Western Power to ensure a consistent constraint set and relevant assumptions.

- AEMO suggests that –
 - The Congestion Information Resource be defined in the WEM Rules and that obligations pertaining to the interaction of the Congestion Information Resource and the Network Opportunity Map be identified in the WEM Rules:

Transfer of network rights

The proposed amendments to the ENAC set out the arrangements for the transfer of network rights in sections 5.8A, 5.8B and 5.8C. The description of how network rights transfers would be permitted under the proposed amendments appears inconsistent with how the Reserve Capacity Mechanism allocation project is designing Network Access Quantities²⁰. The May 2020 consultation paper²¹ states that "the Access Code does not preclude an access holder transferring their rights and obligations under the access contract to a third party". Such rights are not expected to be transferable under the design of the Network Access Quantity framework that constitutes the basis of the reforms to the Reserve Capacity Mechanism. Furthermore, there appears to be uncertainty with respect to the transferability of network rights, because slide 18 presented to the Energy Transformation Strategy Access Code Virtual Industry Forum on 20 May 2020 indicated the intent to "Remove [sic] the ability to 'relocate' contracted capacity to reflect nature of network access rights". AEMO notes that the design of the Network Access Quantities framework is in the final stages of completion.

¹⁹ On 19 November 2019, the Energy Transformation Taskforce endorsed the three objectives of the development of proposed changes to the ENAC, including the objective relating to new technologies.

²⁰ Energy Transformation Taskforce (2020), *Assigning Capacity Credits in a Constrained Network - Network Access Quantity - Key Design Parameters*, February 2020.

²¹ Energy Transformation Taskforce (2020), *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code, Consultation Paper*, May, p.34.