

27 July 2020

The Chief Executive
Energy Security Board
Level 15, 60 Castlereagh Street
Sydney NSW 2000



By email – info@esb.org.au

Dear Mr Barr,

**The Customer Advocate –
Response to ESB Governance of DER Technical Standards Consultation Paper**

Thank you for the opportunity to respond to the Governance of DER Technical Standards consultation paper.

The continued development of effective and practical DER technical standards is just one of a range of issues that are impacting the increasing number of energy consumers who have chosen to invest in advanced energy services, whether they be flexible demand through off-peak storage hot water, rooftop solar PV or committing energy storage to participate in a virtual power station. The DER landscape is continuing to increase in complexity and scale in an environment of tension and varying objectives of retailers, network providers, governments, the market operator, new market entrants and of course consumers.

The implications of the rapid growth in Distributed Energy Resources (DER) in terms of risks to the stable operation and efficient investment in networks are becoming clear to those associated with DER policy and implementation. Those risks are just becoming visible to consumers through the possibility of the curtailment of DER output, increased procedural complexity of connections, the need for additional long-term investment in networks and ultimately new costs to consumers with and without DER.

Therefore, taking steps to provide a level of oversight and harmonisation that can hopefully deliver clarity, efficiency and lower prices for all consumers, not just those who choose to invest in DER, is a welcome initiative.

The plethora of reports, recommendations and initiatives related to the increase in DER is daunting and very confusing. The finding by Sapere / CutlerMerz, in their recent study that *“The current lack of coordination, planning, and resourcing, and slow pace of decision making within the various governance arrangements for DER technical standards in place across Australia, together mean that DER systems deployed today are unlikely to be able to deliver the performance levels and service levels required”* aligns well with the experiences of those who have any level of involvement with the current DER activities.

Sadly, the same comment can be made for many other aspects of the integration of DER, including the establishment of effective metering, the adoption of appropriate tariffs and the role of demand response in maintaining an efficient and stable environment for energy consumers.

The ESB’s DER integration objective to ‘optimise the benefits of DER investment for all energy system users’ encompasses a wide range of actions across the energy landscape, including demand-side

responses through incentives for the installation of appropriate appliances, the application of tariffs to encourage optimal use of DER and alignment – and in some cases compromise – of the market objectives of various entities.

This initiative to establish greater governance around DER technical standards is commended; however it is still unclear whether a new committee in itself will be successful to address the obstacles that have been encountered to date in the attempts to establish effective technical governance. As noted in the ARENA DER Technology Integration Functional Framework report of only some weeks ago, *“recent engagement has informed ARENA that many stakeholders – including industry, consumer groups and policy makers – struggle to understand the breadth of the current work underway on DER issues and the nature of ARENA’s and others’ more complex DER projects (i.e. what they are seeking to achieve, their method and approach, and how they relate to each other and other work underway by government agencies, market authorities, industry and consumer associations).”*

Similarly, it is not clear how the current initiatives regarding technical standards and operability of DER presently under way, such as the proposed actions by the SA government and the rule change proposed by AEMO, will transfer (if, in fact, transfer is feasible) to a new governance structure.

The ESB’s DER Integration Workplan of October 2019 assists in clarifying the framework for a future network, but even that document suggests AEMO is the lead authority for technical integration.

In summary, action to establish the role of the AEMC / ESB as a coordinator, focus and expeditor of the important changes needed in our industry is cautiously applauded. However, clarity, consensus and commitment on how this new proposed governance will deliver timely and deliverable benefits for industry and particular consumers is critical.

Section 2 of this letter covers the response to the 8 questions raised in the consultation paper.

Thank you once again for the opportunity to respond to this important consultation.

(signed)

Mike Swanston

The Customer Advocate

Response to questions

1. Support to establish a governance committee

The establishment of a stronger level of governance of DER technical standards is supported, on the understanding that it is clear that the current arrangements cannot be reasonably 'fixed' with targeted interventions within the existing arrangements in the first instance to deliver a more harmonised and efficient process.

The complexity of the relationships in establishing new governance arrangements cannot be underestimated, particularly in the collaboration, compromise and balance needed to meet competing objectives in a timely manner. Clearer indication of the costs to consumers and the industry to establish and operate such a governance structure needs to be considered and made transparent prior to the decision to establish such a framework.

It is expected that a form of draft Charter and Objectives for the governance committee will be produced before the final decision to proceed is made. These documents would assist in proving clarity as to the likely costs of operating the framework, as well as the key success factors spanning technical, commercial, customer and community benefits and the operating environment against which the success of the proposal would be assessed.

2. Advisory or determining ?

It is recognised that the Governance Committee would be convened under specific rules to be established under the NER.

When considering the concerns with the current arrangements expressed by Sapere / CM, it is clear that the required level of harmonisation and consistency can only be obtained with the backstop of the 'stick' in the form of the ability to make determinations. However, the governance arrangement first and foremost provides the 'carrot' – i.e. it must aim to operate from the position of recognised benefit and clear support to the industry as a whole.

The need for decisions in a timely and efficient way suggests that arrangements similar to those of the reliability panel would be appropriate. One advantage is that the role of the reliability committee is already reasonably accepted and well understood, thereby providing some clarity to stakeholders on 'how things would work' as they consider support for this governance proposal. It is important to note, however, that the need to deeply involve consumers, industry and DNSPs brings an exponential level of complexity.

This places significant importance on the membership, skills and commitment to a consumer-focussed vision of the governance committee.

3. Proposed functions

The Sapere / CM report identified four 'weaknesses' in the current arrangements. The success of the proposed governance framework will be judged on its ability to address these and more functions, including:

- a) Providing clear leadership and vision on the need, nature and purpose of DER technical requirements, in particular how these requirements work in concert with the other imperatives for an efficient and customer-focussed energy environment such as price, accessibility, connection efficiency, network investment and demand-response benefits to all consumers.
- b) Providing a nimble, participative and capable framework to meet changing needs in a timely way.

- c) Facilitate a mechanism to encourage the uptake and harmonisation of not only the technical standards themselves but also the application, connection processes, ancillary equipment (e.g. protection) requirements and installation of DER equipment with a focus on safety, efficiency and affordability.
- d) Provide a compliance reference point and oversee compliance objectives and operation.

Importantly, the governance framework will need a clear and unambiguous capability to encourage and support the engagement and communication functions critical to the successful delivery of workable, consumer and industry-focussed standards. The role of the governance is to not only be complementary to the objectives of the ESB, but also to be seen as providing clear value to industry and consumers.

4. Subsidiary instrument ?

The application through a subsidiary instrument is supported, implying a greater level of flexibility and reduced administrative overhead in producing and modifying technical standards.

5. Compliance and enforcement.

The proposal under section 4.6 of the consultation paper is supported.

6. Composition of the committee

No significant comment regarding the proposal is made, other than to highlight the selection criteria as being 'on the basis of their expertise in DER standards'. It is assumed that the detail of DER equipment operation can be brought through involvement in subcommittees and working groups, and that DER expertise is only one of a number of key industry skills that the members would necessarily bring to the committee.

The proposed membership list appears to reflect the key stakeholders who have a vital interest in the way consumers invest in DER, how benefit is derived, and with a strong understanding the need, purpose and implications of setting technical standards in the current and future energy environment. In some ways it is large and perhaps bureaucratic, but the need for consensus and representation from a range of stakeholders dictates a broad membership. The ability for all members to effectively engage with their stakeholder groups, meaningfully represent their interests and to agree and promulgate balanced outcomes is necessary. Communication and engagement skills are critical for the arrangements to be a success.

7. Committee arrangements

The committee needs to have a robust and clearly stated objectives, with well-defined and key result areas and performance measures that are agreed with not only the AEMC / ESB but also with the stakeholder groups that are represented in the governance committee.

8. Other comments on the operation of the committee

A vision of how the governance committee will engender support from the many stakeholders is critical. AEMO, AER, network businesses, consumers and the DER industry all have specific and varying imperatives regarding the level of influence, uniqueness and timeliness of DER technical standards that will influence network risks, price and performance and the perception of customer value.

Key to the role of the governance committee will be the role of communication, coordination, engagements and mediation; well before the functions of rule-setting and compliance is required.

About *The Customer Advocate*:

Mike Swanston, a professional engineer with over thirty years of experience in the Australian electricity distribution industry, is principal consultant of his business *The Customer Advocate*

With a passion for energy sustainability and a fair deal for energy customers, Mike's mission is to further the empowerment of residential and small business energy customers in today's changing energy markets.

The consultancy has been appointed by governments and regulators in Australia and overseas to advise on the application of innovative technologies and incentives through effective and honest consumer engagement and communication, with a focus on sensible, simple and efficient service to the energy customer.

Mike is a Registered Professional Engineer, a Fellow of the Institution of Engineers Australia and a member of the Australian Energy Regulator Consumer Challenge Panel.