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Ms Stephanie Jolly
Executive General Manager, Consumer, Policy and Markets Division
Australian Energy Regulator
GPO Box 520
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By email: regulatorysandbox@aer.gov.au

17 September 2025

Dear Stephanie,

Ausgrid Sandbox Proposal: Community Power Network Trial

AGL Energy Limited (**AGL**) welcomes the opportunity to provide a response to the Australian Energy Regulator's (**AER**) consultation on Ausgrid's Community Power Network Trial (**CPN**) as part of their Energy Innovation Toolkit initiative.

AGL supports regulatory reform that will lower the cost of supply for all customers. Through mechanisms such as the regulatory sandbox, industry proponents must work collaboratively to modernise the regulatory framework to maximise distributed energy resource (DER) and consumer energy resource (CER) benefits that benefit all consumers.

By contrast, wrapped around this core industry objective, the CPN proposal conflates the identification of regulatory barriers with a series of wholesale and retail market mechanisms that inexplicitly require monopoly intervention. Further, the proposal bends fundamental network regulation and cost recovery principles to enable unnecessary additional expenditure that customers outside the trial areas must pay for.

AGL has material concerns about the impact on customers, competition, and energy bills if Ausgrid, as a regulated monopoly, is permitted to own and operate assets that appears to compete directly with their customers. Particularly where customers are required to subsidise and underwrite uneconomic investments for the benefit of the DNSP.

A key purpose of the regulatory sandbox framework is to inform policy makers with evidence to inform upcoming regulatory change. Whilst the CPN proposal seeks to maximise generation capacity close to customer load centres and reduce network costs through new mechanisms that leverage CER/DER capabilities, the trial fails to focus on the regulatory barriers that prevent this outcome and instead prescribes how this outcome will be achieved.

The core enabling factor to achieve these outcomes is the ability to articulate operational parameters that ensure distribution connected storage is a net benefit to the system whilst participating in the wholesale market. The identification of these operational conditions is the critical precursor to lowering the financial and regulatory barriers to distribution level storage investment when compared to transmission level connections.

Addressing these distribution level barriers to investment will significantly transform how we invest in the right asset mix that achieves the least cost pathway to electrification and the transition to net-zero.

A regulatory sandboxing trial must therefore focus on addressing these barriers to enable a market response that is guided by customer preferences and value. A sandboxing trial must not pre-emptively prescribe how energy markets and the network should evolve to meet customer and system requirements. AGL considers the CPN proposal seeks to do the latter with minimal regard to the distortionary implications of the specific model proposed.

The proposed CPN waivers should not be approved

The AER should reject the CPN proposal in its current form to protect customers, enable competition and avoid unnecessary upward pressure on bills. Key issues include:

- **Customer impact** – Higher bills as other customers underwrite uneconomic investments adding $72.8 million to the RAB with no offsetting financial benefit.
- **Cross-subsidies** – Benefits for trial participants are funded by other Ausgrid customers, framing this cross subsidy as a dividend may be misleading.
- **Unfair discriminatory two-tier system** – Ausgrid customers face export fees while Ausgrid projects avoid them. Ausgrid investments receive preferential treatment investments, disadvantaging Ausgrid customers.
- **Unjustified carbon levies** – Capitalising the avoided emissions from customer investments in solar on Ausgrid's RAB is questionable as no network investment is required. This appears to differ materially from legitimate consideration of avoided emissions in network planning to enable renewable generation and meet Government targets.

We encourage the AER and Ausgrid to consider alternative innovative and more efficient approaches to support ongoing rapid CER/DER uptake in their distribution area and the sharing of benefits from CER/DER with all customers. AGL will continue to proactively engage with Ausgrid and all DNSPs on innovative trials and approaches to accelerate the transition to clean energy and deliver more reliable, lower cost energy for customers.

Tahu Consulting report on customer benefits

AGL engaged Tahu Consulting to review and analyse Ausgrid's CPN proposal and provide a separate report[1] on the customer impact of the proposal. This report provides an independent regulatory perspective of the cost implications of the proposal, the impact on existing regulatory frameworks, and recommendations to preserve the integrity of the network regulatory framework.

Please find attached to this letter is our response to the Ausgrid CPN Sandbox proposal, our response to the AER issues paper questions, and the Tahu Consulting report.

If you would like to discuss any aspect of AGL's submission, please contact Kyle Auret at kauret@agl.com.au.

Yours sincerely,

Ralph Griffiths

General Manager, Policy and Market Regulation

[1] See website link: https://bit.ly/3InaKaQ

About AGL

At AGL, we believe energy makes life better and are passionate about powering the way Australians live, move, and work. Proudly Australian for more than 185 years, AGL supplies around 4.5 [2] million energy, telecommunications, and Netflix customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work, and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other essential services to enhance the way Australians live, and to help preserve the world around us for future generations.

In August this year, AGL released its inaugural Climate Transition Action Plan (**CTAP**)[3], which outlines AGL's ambitions for decarbonisation, including commitments to accelerate DER and CER uptake in tangent with the Government's *National Consumer Energy Resources Roadmap* (**the Roadmap**). We recognise customers and their CER is a key driver of our renewable energy transition in Australia, as well as a key contributor to lowering energy bills and network costs by reducing need for grid-scale investment.

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[2] Services to customers number as at 31 December 2024.

[3] https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/company-docs/250813-climate-transitionaction-plan-2025-final.pdf?srsltid=AfmBOopBKHc4D4BUi40iBKrVhDlx3POd-4ObkANY__UyY5_T7gXACFCv

Attachment A: AGL response to Ausgrid sandboxing proposal

Set out below is our assessment of the Ausgrid proposal. We focus on three key areas that are impacted by this trial: consumers, market competition, and the network regulatory framework.

On face value the CPN would operate at a significant financial loss and increase overall costs for Ausgrid customers. Benefits for customers within the trial area are funded by cross-subsidies paid by other Ausgrid customers through a $72.8 Million increase in the Regulatory Asset Base (RAB) and preferential tariff treatment for CPN investments. Characterising part of this cross subsidy as a ‘dividend’ payment is confusing and potentially misleading.

The CPN proposes to create an unfair two-tier system where Ausgrid investments are provided with favourable treatment relative to solar and battery investments made by ordinary consumers and other users of the network. Contrary to the approach and objectives of the CPN, other Ausgrid customers are charged an export fee (aka “solar tax”) to share their solar locally for use by non-solar customers.

The accounting treatment and capitalisation of avoided carbon emissions from solar on to Ausgrid’s RAB, and presentation of this as though it is as a financial benefit to customers, is hard to rationalise and risks creating an expensive precedent. This is materially different to considering emissions reduction benefits when designing and investing in network infrastructure. There is no suggestion that Ausgrid intends to purchase the carbon rights or renewable certificates from the solar generation. There is a high risk of double counting or displacing solar investment that would have occurred without the CPN.

As outlined below, the wholesale market is the central investment-signal that co-ordinates efficient investment in generation to achieve least cost outcomes for customers. In parallel, government schemes, such as the Renewable Energy Target and the Capacity Investment Scheme, balance and guide investment to achieve broader carbon abatement policy objectives. It is not the role of networks to introduce alternative markets to drive generation investment. The current NEM Wholesale Market Review affirms this fundamental concept.

Further Network investment in distribution generation and storage by Ausgrid is not needed.

Ausgrid owned storage assets already exist for the purpose of the CPN ‘network balancing’ concept. Ausgrid has already received significant public funding to invest in grid connected storage through the ARENA led Commonwealth Community Battery Program (CBP)[4]. It is unclear why further investment in storage is required given this program seeks the same objective as the CNP proposal. The CBP outcomes sought include “*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”.*

The significant funding through the Commonwealth Home Battery Scheme also presents additional opportunities to partner with retailers and aggregators to explore possible customer-led enhancements to real-time network management and planning.

Increased consumer costs and undermining consumer protections

AGL understands the objective of the Energy Innovation toolkit is to promote the efficient investment, operation and use of electricity services for the long-term interests of consumers of electricity. AGL is unclear how customer benefits will be delivered under this trial given the lack of a detailed cost-benefit analysis on financial modelling,

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[4] ARENA site link: https://arena.gov.au/projects/ausgrid-co-located-community-battery-program/

particularly for energy price assumptions, network augmentation, and arbitrage. On face value the proposal directly increases consumer costs without offsetting financial or service benefits for consumers.

Cross-subsidisation, inequitable outcomes and high costs

The proposed investments in CPN assets need to be subsidised by customers. Benefits to customers within the CPN area are proposed to be funded via a cross-subsidy from other Ausgrid customers.

The cross-subsidisation is unfair. Requiring ordinary customers to fund premium feed-in-tariffs for commercial and industrial (C&I) solar while they must pay a solar export charge is particularly difficult to justify. Paying a premium feed in tariff to select customers may encourage some additional investment at those sites, however it is unclear how other Ausgrid customers will benefit from subsidising higher cost solar given the very high rates of solar installation in Australia supported by a range of Government programs.

The proposed community asset dividends to participants within the trial area are presented as a profit share to bring the benefits of solar to customers without solar, however they appear to be facilitated by unfair cross-subsidies paid by customers outside the trial area.

Ausgrid suggests each participating household will receive $150–$200 in benefits (totalling $72.8 million). However, transparency is lacking on how these returns might be achieved beyond general claims that customer investment and RAB access will generate returns from solar sold back to the grid via community batteries. On the information presented in the proposal the CPN would run at a significant financial loss and the ‘dividends’ and tariff concessions for CPN customers are paid for by other customers rather than a reduction in network costs or net profits on investments.

Consumers are leading the transition to clean energy in Australia investing in over 3 GW of rooftop solar per year. Supported by the Commonwealth ‘cheaper home batteries program’ consumers are also increasingly investing in behind the meter batteries (over 50,000 installations in 10 weeks[5]). Distributors have a critical role to enable this investment in CER and sharing the benefits across their network. However, under the CPN model Ausgrid appears to compete directly against Ausgrid customers.

A simple solar soak tariff would enable non solar customers to get the benefit of low cost solar during the day. Clear information on hosting capacity and streamlined connection approvals would support increased solar and battery connection. Simple, actionable and fair network tariffs designed to support and reward customer load shifting would smooth load profile.

Re-opening the regulatory determination is a bad precedent

The CPN proposal requests a waiver from Clause 6.6.5 of the NER to allow the AER re-open the 2024-29 capex allowance and increase the allowed regulatory capital expenditure to avoid Ausgrid suffering what they perceive as ‘penalties’ under the capital expenditure sharing scheme (CESS).

As noted in the Tahu consultant report, there is no rationale to support this. There is no unforeseen, essential or urgent requirement for additional capital expenditure. Much of the additional regulatory expenditure sought by Ausgrid under the CPN appears to simply relitigate decisions by the AER not to allow the expenditure.

The CESS is a reward designed to incentivise energy networks to manage their capital investment efficiently. In part this seeks to address the ‘capex bias’ in the system and the information asymmetry between the regulator

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[5] https://minister.dcceew.gov.au/bowen/media-releases/joint-media-rele
ase-50000-cheaper-batteries-now-powering-australian-homes-businesses-and-community-groups

and regulated. Re-opening the determination in this context risks further undermining the efficient regulation of monopoly networks under the rules. It may create a new form of limited merits review where regulated businesses are incentivised to create reasons to reopen determinations to retest AER decisions safe in the knowledge they can only increase their allowance.

Including estimated carbon reduction from customer solar on Ausgrid's RAB

The rationale and methodology for the treatment of carbon abatement benefits ($42.6m) is unclear and inequitable. The rational to privatise this externality benefit arising from customers' investments and allocate the returns to Ausgrid shareholders is also unclear. In large part the viability of the CPN appears to rest on this novel addition of a carbon charge on customer bills.

There is a high risk of double counting or substituting carbon emissions reduction. There are a range of Government programs to investment in renewable generation and carbon abatement – including the Renewable Energy Target, the Small-scale Renewable Energy Scheme (and associated battery program), and the Capacity Investment Scheme. Decisions to establish these scheme and associated cost recovery mechanisms are appropriately made by Governments.

Allowing Ausgrid to separately monetise the value emission reductions associated with investments in solar made by them or their customers may set a dangerous and expensive precedent for other networks. The proposal does not indicate that Ausgrid intends to purchase the 'green' (renewable or carbon) rights from the solar within the CPN which may also result in double counting of emissions benefits and Ausgrid customers paying twice (as both RET and CPN solar subsidies would be recovered on their bills).

Competition impacts and maintaining market integrity

AGL holds serious concerns for the precedent this proposal will set for National Energy Market (**NEM**) settings. From our understanding this proposal may enable the undermining of competitive markets and allows unfair discrimination by Ausgrid against existing customers and other investors in solar and batteries. CER and DER markets are inherently competitive, competition in these markets is delivering huge value to customers. The CPN proposes to explicitly set aside competitive neutrality in the provision and pricing of the monopoly electricity network services that customers and suppliers rely on.

Dual role of Ausgrid and competitive integrity

The proposed dual role for Ausgrid under the CPN, as both a monopoly network planner/operator and market asset owner/operator raise serious concerns about fair market access, anti-competitive behaviour, and the integrity of safeguards under Part 6 of the National Energy Rules (**NER**) designed to protect customers from future pricing risks. Allowing the monopoly DNSP to operate within a competitive energy market, including the explicit cross-subsidies and preferential self-dealing proposed under the CPN, will distort the highly competitive solar and battery markets. It risks establishing a bad precedent for other monopoly networks subsidising contestable services with regulated, non-competitive revenue and discriminating against other users of the network.

Further the risk of uneconomic investment in, and operation of, renewable generation and firming assets in the wholesale electricity market by monopoly networks would have a chilling effect on critical investment in wholesale electricity generation, shaping and firming services. This may lead to higher prices for all consumers, slow the transition and undermining key Government policies to encourage investment in the wholesale market.

Lack of clarity and additionality

It is unclear how Ausgrid will work with participants and retailers to ensure access to the market in this trial or how they intend on managing trading in the market to ensure inclusive fair outcomes.

The proposal also risks overlap with other initiatives already taking place across the market involving the roll-out of DER and CER which seek to produce similar outcomes and learnings. For example, the Commonwealth Government recently announced it will expand a renewable energy underwriting scheme which aims to capitalise on solar panels, wind and batteries (40GWh) to meet 2030 climate targets. The Government also recently introduced the cheaper home batteries program to support customers investment in solar batteries. The NSW Governments has also refocussed support under Peak Demand Reduction Scheme to better integrate customer batteries to deliver system benefits.

ARENA's *Project Jupiter* is testing a similar approach to CPN in the Southwest Interconnected System, designed to integrate rooftop solar, home and community batteries (distributed energy resources, or DER) into the grid at scale via virtual power plants. Ausgrid has also already been funded through multiple ARENA and other Government programs to invest in distribution scale batteries within its franchise area and to explore different business models to support increased solar hosting and sharing of benefits.

The competitive retail market is heavily investing into the uptake of DER/CER and innovative ways to share benefits with customers who do not have solar. For example, AGL's *Three for free* initiative, which offers three hours of free energy usage daily in South Australia, giving households who do not have the ability to install solar, the opportunity to benefit from shared community power via smart meters.

Due to the lack of testable hypothesis and overlap with other programs it is not clear the CPN will deliver new learnings or improved outcomes, and unlikely learnings will be proportionate to the very large scale this trial.

Network regulation must maintain economic efficiency

Enabling competition and providing appropriate economic signals is essential to ensuring ongoing efficient investment and equitable cost benefit for customer CER in our energy transition. Appropriate market signals must be preserved to support the efficient operation of markets as this indicates where investment is most needed. If contract market competitiveness and liquidity is compromised, the benefits of renewable and storage investment may not flow through to customer bills.

The CPN risks permanently undermining the regulatory and competitive structure established through the national electricity law and rules. The long-term risks to customers and competition would be very difficult to manage once a private monopoly is allowed to compete against the users of their network. The information asymmetry is strong, and it is extremely difficult for regulators to monitor and limit the potential for discrimination. There are many ways for a monopoly to exercise market power through degradation of service, cost shifting and discrimination in pricing.

Batteries (including small scale batteries) and other distributed energy resources can provide network services. This does not mean they should be owned by networks. Grid scale batteries already provide network services without being TNSP or DNSP owned. Competitive provision of more efficient non-network alternatives to network investment should remain the objective as specified under the regulatory framework.

AGL recognises concerns that the current regulatory regime has an embedded 'capex bias' that may strongly incentivise DNSPs to pursue capital-intensive network options in preference to non-network solutions to the detriment of customers. If this is a barrier to efficient procurement of non-network services AGL would support reforms to better align the incentives of network owners with customers.

AGL supports Ausgrid's proposal to develop a spatial energy plan using AI to identify capacity needs. This should be shared with market participants and used to improve investment and operating signals. However, we question why it has not been pursued under existing market arrangements.

Appropriate framework settings and regulatory oversight

The roles and responsibilities associated with Distribution System Operators (**DSO**) are still under consideration under the CER Roadmap. Allowing a DNSP to own, operate, and trade assets is likely to disadvantage customers, aggregators and retailers from effectively participating, impacting competition and prices. We believe it is inconsistent with the role of the DNSP to independently plan and operate the network and enable competition for the benefit of customers. The orchestration, trading and deployment of DER and CER under the CPN can and should be separated from the network planning and operation. This would free Ausgrid to focus on spatial energy planning, data provision, network operation and procurement of least cost services from the competitive market deliver and operate non network assets.

Ausgrid's proposal appears to be driven by a perceived localised market failure in solar incentives, rather than broader market needs. It is not clear that the NEM suffers from under investment in distributed solar, however if there is network value to increasing solar penetration in specific parts of the network this can be achieved under the current framework. In the first instance Ausgrid could make these locations known, streamline automatic connection and reduce fees and tariffs.

As noted, adjusting the RAB to include solar and battery in Ausgrid distribution areas, Mascot-Botany and Charmhaven, sets a concerning precedent for DNSPs in future. Without strict ring-fencing and oversight, this appears to also breach several customer protection rules in the NER. The CPN proposed spend of over $70m far exceeds the RIT-D threshold, breaching Rule 5.17 of the NER.

While the sandbox allows for regulatory flexibility, AGL advocates that any successful trial must meet key thresholds, including ring-fencing under clauses 6.5.7(a) and (c) of the NER. AGL does not believe the proposal meets these thresholds and consequently, AER intervention will be required for the CPN post conclusion.

AGL recommendations should the trial proceed

If this trial application is successful, AGL strongly encourages the AER to consider subjecting it to additional regulatory benchmarks, such as a RIT-D and Ring-fencing requirements, as well as a detailed reporting requirements to demonstrate how the trial is meeting set targets.

More specifically, we recommend the following:

- Require the proposal to be subject to Ringfencing under the Electricity Distribution Ring-fending Guideline.
- Require Ausgrid's proposal be subject to the RIT-D process.
- Require non-discriminatory and fair treatment for all customers seeking to connect and utilise solar and battery assets, with clear criteria and measurement and transparent reporting
- Ensure proposed Standard Control Services (SCS) expenditures is transparent, fully itemised and justifiable.
- Amend the trial objective and design to be testable, set clear performance metrics and collect provide robust evidence
- Limit DNSP ownership to last resort scenarios and required assets to be competitively procured to prevent inappropriate encroachment on market roles.
- Enforce obligations for DNSPs to share granular data on network operations, hosting capacity, and constraints.

- Establish an independent regulatory oversight of trial outcomes by an independent body to protect both market integrity and customer interests.

AGL supports the development of the ‘spatial energy plan’ proposed within the CPN trial. The provision of transparent useful information on network condition, constraints and hosting capacity is important to enable efficient investment across the network.

Appendix B: AGL's Responses to AER Consultation Questions

Assessment of trial waiver applications

1. *As our first policy-led sandboxing trial application, the AER welcomes feedback from stakeholders on how this trial may help answer our three policy questions arising from policy-led sandboxing.*

What types of relationships (between distributors, retailers, co-operatives, embedded networks, third parties and customers) and/ or ownership models for CER/DER could better enable access to, and deployment and orchestration of, CER/DER?

The National CER Roadmap is currently consulting on regulatory reform that will redefine the roles and responsibilities for Market and Power System Operations to better integrate CER/DER into the power system. Whilst AGL agrees that the existing roles need to be clarified and standardised, before this can occur the industry must work collaboratively to clarify the issues that need to be addressed and in turn identify the best regulatory pathway that maximises customer value and benefits for all customers.

Through this collaborative process the role of the DSO will evolve through the identification of the right mechanisms and incentives to manage the technical envelope, reduce costs of operating the network, and integrate high levels of renewable energy. This process will require DNSP neutrality to enable the issues to be adequately explored and addressed.

Ausgrid's proposal may assist in exploring the possible roles of DNSPs and DSOs, however, it creates a fundamental conflict of interest between the DNSP/DSO and it its customers and users. This risks undermining long term confidence in any DSO role or function being undertaken by the DNSP owner. Under the CPN, Ausgrid would adopt a dual role as both a network planner and asset owner/operator. It is understood from ARENA's report: *Community batteries: a cost/benefit analysis* that delineating roles in this context, for instance where a DSO deploys community batteries, can lead to higher costs than other proponents.[6] We have significant concerns about risks to fair market access, anti-competitive behaviour, and the integrity of safeguards under Part 6 of the National Energy Rules (**NER**), designed to protect customers from future pricing risks.

By allowing a monopoly DNSP to operate within a competitive energy market, the CPN risks distorting the market and setting a precedent for other monopolies to engage in similar activities, potentially subsidising contestable services with regulated, non-competitive revenue. Such monopoly encroachment, including Ausgrid executing trades and managing financial flows, could undermine future competitors and adversely impact customer prices.

How might the benefits of deployment and orchestration of CER/DER be valued, and that value accrued and distributed, to deliver a least-cost energy system? What role could a DSO play?

AGL supports Ausgrid ambition to facilitate increased connections of solar and batteries where all customers will benefit. In terms of benefits of this proposal, the critical factor to consider is the counterfactual to this proposal. In many aspects the uptake of CER/DER is driven by improvements in technology and customer preferences. Regardless of the CPN proposal, electrification will continue to drive significant increases in storage and solar capacity in the distribution network.

It is therefore unclear how 'additional' CER/DER may be valued due to the ambiguity in the proposal. Ausgrid have proposed that 22MWh will be deployed from residential rooftop solar in time, but it is unclear what this proposition

[6] ARENA site link: https://arena.gov.au/assets/2020/08/community-batteries-cost-benefit-analysis.pdf

in practice will look like. It is also unclear how this proposal may displace alternative sources of CER/DER in the network.

On face value the CPN proposal directly increases consumer costs without offsetting financial or service benefits for consumers.

Yet, if benefits are measured in time, AGL is keen to understand whether customers receive greater value from the dividends under this trial compared to the ‘do nothing’ counterfactual. Equally, we are interested in whether installing large rooftop solar would in fact provide relief to the grid during peak hours, and as a result deliver more cost-effective prices to consumers.

Which model for access to, and deployment and orchestration of, CER/DER build consumer trust and social licence for mass adoption and orchestration of CER/DER?

AGL does not consider this model will build customer trust or social licence. As mentioned above, it appears that the proposed customer benefits may be a result of adjustments to the RAB and cross-subsidisation. Although select customers may benefit under the trial, it may be at the expense of Ausgrid’s wider customer base. This may undermine the broader social licence of the regulatory sandbox trials.

Further, we do not agree that the two trial areas chosen under the trial reflect the diverse customer demographics within New South Wales. Despite the mix of C&I and residential dwellings. Mascot-Botany is a central district in Sydney and Charmhaven an outer district in New South Wales, both of which are unique demographics when compared to the majority of alternative network areas available within the network and, more broadly, in other network areas. Consequently, it is questionable whether this trial’s learnings will offer a broad reflection of other network areas.

Potential to develop new or materially improved approaches to energy services

What potential do you see in the trial to develop new and improved services for consumers?

AGL does not consider this trial will develop any new services for customers. It may deliver some improvements to services to consumers from Ausgrid taking more of a DSO role, as well as if the Spatial Energy Plan and the integration of AI provide robust data for signals.

Which elements of the trial do you consider will generate the most valuable learnings?

AGL considers the most valuable learning from this proposed trial will be the development of a spatial energy plan, with integrated AI to help create and understand grid signals for the delivery of wholesale electricity to the grid to areas that require capacity.

As noted above, another key benefit will be the identification of operational parameters that ensure distribution connected storage is a net benefit to the system whilst participating in the wholesale market. The identification of these operational conditions is the critical precursor to lowering the financial and regulatory barriers to distribution level storage investment when compared to transmission level connections.

Addressing these distribution level barriers to investment will significantly transform how we invest in the right asset mix that achieves the least cost pathway to electrification and the transition to net-zero.

How might this trial contribute to future regulatory reforms or industry practices?

More evidence is required to support whether it will contribute to greater industry practice. Presently, there is a lack of evidence to suggest it will assist wholesale distribution, emission reduction or utilisation to a greater extent than what is already delivered in existing arrangements.

Could the spatial energy plan deliver broader benefits or support other trials?

AGL believes it is possible for the spatial energy plan to deliver broader benefits, as well as support other trials. However, we question whether Ausgrid is currently technologically capable of achieving this objective. It remains unclear why the improvements to network planning and visibility are not already pursued under existing regulatory arrangements. These preparatory steps could then inform a potential trial opportunity once there is a clearer pathway to building these new market tools.

Proposed funding and what happens at the end of the trial

If all Ausgrid customers may derive some benefit from the learnings of the trial through the provision of shared system insights, how could the trial be funded?

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

Ausgrid has not provided a strong argument for why all Ausgrid customers should pay for an orchestration capability that the competitive market is already able to provide. Further, it is unclear why the scale of the trial is so large. As outlined in the Tahu Consultant report, this trial significantly dwarfs any other comparable DNSP trial in Australia. Without a clear basis for the scale of this proposal and a more detailed cost breakdown, Ausgrid may be leveraging the sandboxing framework to significantly upgrade its own DSO and DMO IT capabilities through this proposal.

AGL disagrees with adjusting the RAB to realise the objectives of this trial. We consider that Ausgrid's proposal could instead be funded by traditional competitive market funding streams, whereby Ausgrid could provide upfront investment and tender arbitrage services to retailers.

AGL also note that Ausgrid owned storage assets already exist for the purpose of the CPN 'network balancing' concept. Ausgrid has already received significant public funding to invest in grid connected storage through the ARENA led Commonwealth Community Battery Program (CBP). It is unclear why further investment in storage is required given this program seeks the same objective as the CPN proposal. The CBP outcomes sought include "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".

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.

What are your overall views on the proposed recovery of costs of this trial?

As per above, AGL questions the equity and transparency of the proposed community asset dividends under the CPN. While Ausgrid estimates household benefits of $150–$200 and enhanced feed-in tariffs, AGL notes a lack of clarity on how these returns will be delivered.

The reliance on specific local energy resources raises concerns about overinvestment in localised solar at the expense of more cost-effective CER options and alternative renewable generation located outside the trial area.

Additionally, the use of carbon abatement benefits to fund tariffs may breach NER clause 6.5.1, as the proposal does not involve grid upgrades or new technologies. AGL argues such decisions require government oversight and legislative scrutiny.

Contribution to achieving the National Electricity Objective

What are your views on how this trial could contribute to the achievement of the National Electricity Objective?

It is unclear whether Ausgrid's trial will contribute to the National Electricity Objective. With the omission of a desktop study, it is difficult to determine how the CPN will achieve lowering energy costs or accelerate utilisation of CER and decarbonisation in comparison to alternatives that are currently being undertaken in the competitive market.

Separately, we do not consider the trial will meet principles in relation to competitive efficiency. As previously noted, the proposed dual role raises concerns regarding anti-competitive practices, partnered with a risk of discrimination against other market participants for fair market access.

Consumer protections and risks

What sort of principles and process considerations should guide design of a delivery mechanism for consumer dividends as part of this trial?

In light of our feedback set out above, AGL encourages the AER apply the following principles in addition to the sandbox's current principles to ensure improved outcomes for consumers.

I. All processes and practices involving consumer dividends are transparent and non-discriminatory for the benefit of all consumers.
II. For all market participants to act in good faith for the benefit of customers.

Noting Ausgrid's commitment that no consumers will be worse off in trial area, what are your views on consumers not having the ability opt out of this trial?

Restricting customer choice under the trial conflicts with NEM competition policy principles and effective CER integration. Despite claims that consumers will be no worse off, AGL warns this approach risks eroding trust if outcomes are poor. In competitive markets, retailers build customer trust through the choice of services they want and value.

There is evidence to suggest that when this autonomy is limited, it often leads to poorer outcomes. For example, the DNSP-led Victoria's smart meter rollout, a programme without consumer outcome oversight, led to poor consequences due to a lack of competitive innovation and higher metering costs for consumers compared to other states.[7]

What information would you like to see if you were a consumer in a pilot area?

As one of Australia's largest energy retailers, AGL is aware that customer knowledge on dynamic energy services and billing is growing. As a result, customers are now more invested in understanding the configuration of their energy bills and benefits.

We are unclear on how customer tariffs and dividends will be delivered under the CPN in relation to LUOS network cost recovery, given the lack of a detailed cost-benefit analysis on financial modelling, particularly for energy price assumptions, network augmentation, and arbitrage. AGL advocates for further detail to be provided on the configuration of the premium feed-in tariffs and dividends, as well as how they will work in practice for transparency purposes to build consumer trust.

Likewise, we consider consumers would be interested to see an annual, independent report on the progress of the CPN outcomes to ensure Ausgrid is held accountable for their services in Mascot-Botany and Charmhaven, particularly in light of the 'no opt-out clause'.

[7] Victoria Auditor-General's Office weblink: https://www.audit.vic.gov.au/report/realising-benefits-smart-meters

Are there other benefits or costs of this trial that may impact consumers? How these should be managed?

Ausgrid's proposal raises concerns about equity, with preferential tariffs and higher solar export values for trial participants. It's unclear whether costs for community batteries and orchestration will be fairly distributed, especially for customers outside the trial area. If this model is extended post-trial, its fairness remains uncertain.

As mentioned above, AGL considers the rationale behind determining carbon abatement benefits is also unclear. With carbon prices expected to rise by 2040, it appears these may be used to fund feed-in tariffs via access to the RAB. This is inconsistent with both the NERL framework and the NEO, which promotes efficient investment in electricity services for the long-term interests of consumers. Simultaneously, the proposal also appears to conflict with the National Energy Equity Framework, which seeks to ensure that energy policies do not unfairly disadvantage particular consumer groups. Decisions of this nature are typically made by the Government due to their wide-reaching implication. It should not be at the discretion of monopoly network service providers to dictate such policy direction.

Further to the example used above, if carbon abatement of this nature is permitted, it could set a precedent to introduce other networks assessments with carbon abatement criteria, such as if a gas network pursued socialising emission benefits of disconnecting gas customers by increasing costs to remaining customers, which could have far reaching implications that need to be considered holistically in the context of the regulatory framework.

While AGL supports the sandboxing framework as a tool for innovation, it should not be used to bypass scrutiny of commercial proposals. Given that similar outcomes could be achieved through existing market arrangements, the AER should carefully consider whether this trial is the right context for exploring such approaches.

Competition impacts

How could Ausgrid's proposed trial impact the contestable markets in which it seeks to participate? Which markets could be affected and in what ways?

AGL holds serious concerns that Ausgrid's proposal risks distorting competitive energy markets by allowing a regulated monopoly to own and operate assets in contestable spaces. The dual role of network planner and market operator undermines market integrity, DNSP neutrality, fair access, and customer protections.

It is unclear how Ausgrid will work with participants to ensure access to the market in this trial or how they intend on managing the arbitrage in the market to ensure all-inclusive fair outcomes.

In parallel, expanding the RAB to fund solar and battery assets could set a precedent for DNSPs to profit post-trial, breach regulatory limits, and embed emissions costs contrary to national energy law. AGL recommends separating orchestration from asset deployment and urges stronger oversight to prevent market discrimination and regulatory breaches.

What other benefits could be delivered, or learnings contributed, by Ausgrid's proposal to orchestrate CER and DER?

As per above, AGL questions the likelihood of meaningful new learnings from Ausgrid's trial, given similar DER and CER initiatives already underway across the market. Government programs like the Expanded Renewable Energy underwriting scheme and ARENA's Project Jupiter are already exploring large-scale integration of solar, batteries, and Virtual Power Plants (**VPPs**). Additional funding from Commonwealth and State Governments, along with initiatives like the Peak Demand Reduction Scheme, further support CER uptake.

The competitive market is also driving innovation, with offerings such as AGL's *Three for Free* in South Australia, which enables households without solar to benefit from shared community energy.

In this context, Ausgrid’s proposal risks duplicating existing efforts without clear added value. The lack of detail around how DNSPs will manage arbitrage, combined with overlapping market activities, makes it unclear whether the trial will deliver new insights or improved outcomes. Without differentiation or transparency, the trial may introduce inefficiencies rather than contribute to progress.

Potential conditions

What, if any, other conditions should be placed on the waiver to ensure consumers and their private information are protected, while maximising trial benefits and learnings?

As under current market arrangement, protections under the Privacy Act 1988 (Cth) should still apply to consumers under the waiver to ensure their personal information and data remains confidential for the duration of the trial.

What conditions should be placed on the waiver to monitor and protect competition while ensuring the trial generates learnings for all participants?

AGL understands that Ausgrid is seeking a waiver from the 5% threshold in Rule 6.6.5 of the NER to reopen its 2024–29 regulatory determination and approve trial capital expenditure (capex) without triggering a Regulatory Investment Test for Distribution (RIT-D). However, this Rule is intended for serious, unforeseen events affecting network reliability, which this trial does not meet. The proposed capex clearly exceeds the $7 million RIT-D threshold, yet Ausgrid omits this from its proposal. AGL believes that using the waiver in this context bypasses proper regulatory scrutiny and undermines the NERL framework as a RIT-D is essential to assess costs and benefits and ensure investments serve consumers’ long-term interests.

Ausgrid also proposing to waive the guideline, including non-waivable rules such as cost allocation and anti-discrimination, conflicts with the Australian Energy Regulator’s processes and precedent, including the Community Batteries class waiver. Ring-fencing and sandbox waivers serve distinct purposes and must be assessed independently. In this context, granting Ausgrid’s request to waive the CPN through the trial process would compromise regulatory integrity and consumer protections.

Consequently, AGL advocates for the Ausgrid’s CPN trial to be subject to ring-fencing guidelines under the NEM. While Ausgrid’s formal application seeks a waiver from Rule 6.6.5, its accompanying report suggests it may also seek exemptions from ring-fencing rules for activities such as leasing storage or owning solar PV. These activities clearly require a ring-fencing waiver.

Finally, AGL recommends imposing a strict obligation on Ausgrid to approve competitive market connection applications over any internal proposals to ensure access to market competition.

What reporting conditions or other requirements should the AER consider?

AGL recommends that the AER consider appointing an independent body to undertake annual reporting. This would provide valuable insights into how the trial operates in practice, particularly in relation to arbitrage and help ensure customer outcomes are being appropriately met, including utilisation and customer dividends. The report should also include a robust cost-benefit analysis to assess whether the investment and approach deliver the expected outcomes under the proposed tariff structures and pricing.

What data should the AER and/or Ausgrid publish (and when) to maximise learnings and benefits from the trial and are there specific metrics that should be used?

AGL recommends that the AER impose obligations on Ausgrid to report annually on the CPN. These reports should include granular data on the progress of asset deployment, feed-in tariffs, dividends, spatial planning insights, and financial year expenditure.