

18 January 2023

Mr. Mark Feather
General Manager, Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Sent via email: AERringfencing@aer.com.au

Dear Mark

Ring-fencing class waiver – Commonwealth Government Community Batteries for Solar Program

SA Power Networks welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Initiation Notice – Assessment for a distribution class waiver for projects funded under the Commonwealth Government's Community Batteries for Household Solar Program (**class waiver**)¹.

Network business participation in the roll out of community batteries will support the customer driven transition to renewable energy resources and maximise the value customers receive from these assets through the value stacking of various revenue streams, while enabling third party access via leasing arrangements.

We strongly support the development of a class waiver that enables distribution network service providers (DNSPs) to lease spare battery capacity to third parties of community battery projects administered under government (Commonwealth and Jurisdictional) subsidised schemes.

Our submission, contained in the attachment to this letter, provides further comment in support of the submission from Energy Networks Australia. Our key feedback is that:

- the class waiver is necessary to provide networks, and third parties considering leasing business models, clarity around the role networks will be permitted to fulfill;
- the effective time period of the waiver should be extended from 30 June 2039 to 30 June 2041 to align with the anticipated economic life of community batteries installed in the last financial year of the Commonwealth program (2025-26);
- we agree with the AER that clauses 3.1, 4.2.1 and 4.2.2 of the Distribution Ring-Fencing Guideline for both Class A and Class B battery projects, need to be waived in order to enable DNSP involvement as intended by the class waiver;
- the AER's proposed Regulatory Asset Base (RAB) allocation methodology for Commonwealth batteries is impractical as it requires upfront adjustments to the RAB based on likely uncertain forecasts of potential unregulated battery lease revenue; and
- an alternative 'customer benefits' approach to determine an appropriate RAB allocation and revenue sharing arrangement as detailed in ENA's submission should be considered.

¹AER, *Initiation notice - Ring-fencing class waiver Community batteries funded under the Commonwealth Government's Community Batteries for Household Solar Program*, December 2022

If you have any queries or require further information in relation to our submission, please contact Luke Cowen on [REDACTED] or [REDACTED].

Yours sincerely

A large black rectangular redaction box covering the signature of Mark Vincent.

Mark Vincent
General Manager Strategy and Transformation

1. Customers will benefit from network participation in the rollout of community batteries

SA Power Networks strongly supports developing a class waiver which enables networks to lease battery capacity to third parties on the basis that:

- a class waiver will provide clarity on the role that DNSPs may be permitted to fulfill, for both DNSPs who may be considering applying for Government funding as well as for third parties contemplating entering a leasing arrangement for a community battery;
- DNSP's participation in the roll out of community batteries will support the customer led energy transition to distributed renewables as these assets have potential to assist with the efficient integration of customer energy resources, improve network resilience, and help manage network peak demands;
- a regulatory framework which permits networks to lease spare community battery capacity will enable leasing to third parties, who may otherwise be unable to access batteries due to barriers to entry, the ability to deploy or test various business models and battery utilisations; and
- it will also permit networks to maximise the value which can be derived from these assets through value stacking of multiple (regulated and unregulated) revenue streams and share in a portion of that regulated revenue with network customers resulting in lower network costs.

2. Strong customer protections remain in place under a class waiver

The provision of a class waiver will not provide distributors with exclusivity in access to community battery funding, as these funding applications will still undergo a competitive process administered under various Government bodies.

When submitting applications for funding, DNSPs will still remain guided by incentive regulation, which will continue to incentivise the pursuit of which ever solution to address network constraints may be most efficient, be they via network or third party owned batteries.

Further, ring-fencing class waivers also include conditions and criteria that a DNSP must adhere to. The existing regulatory framework also includes obligations on DNSPs such as:

- do not discriminate in favour of related parties to disadvantage competitors operating in these markets;
- do not use revenue earned from regulated services to cross-subsidise contestable services; and
- handle ring-fenced information appropriately.

3. Class Waiver conditions

The ring-fencing class waiver classifies DNSP led Community battery projects into one of two classes:

- class A – where a community battery has a zero contribution to the RAB; and
- class B – whereby a community battery is funded, at least in part, by an allocation to the RAB.

For both Class A and Class B projects, we agree with the AER that the class waiver should cover the following clauses in the Ring-Fencing Guideline:

- clause 3.1 (Legal separation) – as this clause is the central impediment to DNSPs entering leasing and co-funding arrangements with third parties for batteries;
- clause 4.2.1 (Functional separation – Physical separation / co-location); and
- clause 4.2.2 (Functional separation – Staff sharing) as both of these clauses would otherwise create inefficiencies and potential duplication in the staff and offices a DNSP needs to in order to coordinate

the use of a battery for network support purposes at times and leasing for third party unregulated purposes at other times. We note that all DNSPs will need to continue to follow all other obligations within the Guideline, including in relation to mitigating the potential for discrimination.

In respect of cost allocation, we support the AER’s proposed approach for Class A projects.

However, we do not support the AER’s draft cost allocation methodology to Class B projects. This proposed methodology would require DNSPs to forecast lease revenue to determine an appropriate RAB allocation which we consider to be impractical because:

- relative to a network’s anticipated use of a battery to provide network support, there is greater unpredictability in the use of a battery for unregulated purposes which makes accurate forecasting upfront of unregulated lease revenue challenging. There are greater uncertainties in how third parties may seek to utilise a battery in unregulated markets, including in relatively undeveloped community battery markets, National Electricity Market spot-market arbitrage and Frequency Control Ancillary Services (FCAS) and other AEMO services. These decisions will affect the amount that a third party may be willing to contribute to a lease;
- trying to forecast uncertain revenue to determine the upfront RAB allocation exposes networks to risks in the event that such revenues fail to eventuate and a RAB allocation has been reduced below the network benefits received by customers as a result; and
- network customers may forgo potential revenue that they might otherwise have received a share of, in the event lease revenues are above what was forecast.

Networks may only control for the above risks if they can contract with a third party who is willing to lease the battery for the life of the asset. However, at this stage there remains uncertainty as to the likely form of contractual arrangements with third parties for battery leasing, including with respect to whether third parties would be willing to enter into leasing contracts that will span the life of the asset.

4. RAB allocations should be determined on the basis of network customer benefits

We support the ‘regulated customer benefits approach’ proposed and detailed in the ENA submission, by which to determine appropriate RAB allocations and revenue sharing arrangements. This approach avoids the issues we identified with the AER’s cost allocation methodology in the previous section, as customers will instead share in actual lease revenues as opposed to forecast lease revenues.

Under our proposed approach, customers of regulated distribution services will not be asked to fund (via the DNSP’s RAB) any regulated costs which do not have corresponding net benefits for these customers, and will also receive a share in a portion of the unregulated revenues that DNSPs may earn from leasing batteries to third parties. The specifics of this approach are as follows:

- the costs allocated to the RAB will be determined by the quantified regulated consumer benefits with a maximum ceiling set to the residual cost of the asset;
- the regulated customer benefit is equal to the quantified benefit derived from the deployment of the battery asset for *direct control services*, calculated with reference to the AER’s DER Integration Expenditure Guidance Note² where applicable, noting that the community battery may offer benefits beyond DER integration, for example, by providing improvements in network resilience; and
- the residual cost of the asset is equal to the cost of the asset net of any government funding received by the DNSP; and

In instances where a community battery has been partially funded by network customers via a RAB allocation, a revenue sharing arrangement will be developed by the DNSP to ensure network customers share in no less than 10 per cent (as the minimum floor) of any benefits the DNSP receives from the deployment of the asset

² AER, *Final DER integration expenditure guidance note*, June 2022

for *other distribution services* and *other services* over its economic life, weighted by the proportion of cost allocated to the RAB (i.e., the proportion of the asset that has been funded by regulated electricity customers). No materiality threshold can be applied to this revenue sharing arrangement. This approach will ensure that:

- any capital expenditure allocated to the RAB, and therefore funded by regulated electricity customers, reflects the regulated benefits that these customers will receive from the community battery. The maximum ceiling capped at the cost of the asset minus government funding that the DNSP receives ensures customers pay no more than necessary, even in circumstances where the quantified consumer benefits are higher;
- when customers fund a portion of the community battery via the RAB, they are guaranteed a share in any revenue a DNSP may receive from leasing battery capacity to third parties; and
- should unregulated lease revenue fail to materialise, customers are not exposed to any costs or risks associated with pursuit of these revenues as their contributions to the project are limited to the benefits associated with *direct control services* calculated with reference to the AER’s DER Integration Expenditure Guidance Note.

5. We recommend the AER consider extending the class waiver to include Jurisdictional level battery programs

The AER’s proposed class waiver seeks to target networks’ participation in various Commonwealth Government programs that are in place to support the rollout of community batteries, administered by the Department of Climate Change Energy, the Environment and Water (**DCCEEW**) and the Australian Renewable Energy Agency (**ARENA**)

However, we recommend that the AER take this opportunity to also expand the scope of this class waiver to also apply it to networks’ participation in other similar government programs, which may be administered by jurisdictional governments. Due to strong customer support and demand for community battery initiatives, we are seeing a number of jurisdictional initiatives emerge and expect that this may continue in coming years. Examples have recently included:

- the Victorian Government Neighborhood Battery Initiative, with funding for additional neighborhood batteries³;
- the Queensland Government Energy and Jobs Plan, which includes funding for community batteries⁴; and
- the ACT Government Big Canberra Battery, with Stream 3 for the rollout of neighborhood scale batteries⁵.

³ Victoria: <https://www.energy.vic.gov.au/grants/neighbourhood-battery-initiative> and <https://www.premier.vic.gov.au/powering-potential-neighbourhood-batteries>, accessed 12 January 2022

⁴ Queensland: https://www.epw.qld.gov.au/__data/assets/pdf_file/0031/32989/queensland-energy-and-jobs-plan-overview.pdf, accessed 12 January 2022

⁵ ACT: <https://www.climatechoices.act.gov.au/policy-programs/big-canberra-battery/get-involved-in-the-big-canberra-battery-project>, accessed 12 January 2022