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Dear Mr Feather

Ausgrid submission re AER ring-fencing class waiver for Commonwealth funded community batteries

Ausgrid welcomes the opportunity to provide a submission on the Australian Energy Regulator's (**AER**) ring-fencing class waiver for projects funded under the Commonwealth Government's Community Batteries for Household Solar Program (**the program**).

We support the AER issuing a class waiver from clauses 3.1- legal separation, 4.2.1- physical separation and 4.2.2- staff sharing from the Ring-fencing Guidelines for this program.

We support the waiver applying to both Business Hub and Australian Renewable Energy Agency (**ARENA**) funding under the program.

We recommend that the waiver be in effect until 30 June 2041 (rather than 30 June 2038), which accommodates batteries installed in the final year of the program (FY2025-26), allowing for their expected economic life of 15 years.

We support Energy Networks Australia's (**ENA**) proposed approach to cost allocation and revenue sharing for the purposes of the class waiver.

Attachment A provides further details. If you have any questions about our submission, please contact Naomi Wynn, Manager, Regulatory Policy at [redacted].

Regards,

[redacted]

Rob Amphlett Lewis

Chief Customer Officer

ATTACHMENT A - Ausgrid submission re AER ring-fencing class waiver for Commonwealth funded community batteries

1. A class waiver should be issued

Ausgrid strongly supports the AER issuing a class waiver for distribution network service providers (**DNSPs**) to lease out spare capacity in community batteries under the program. A waiver will give DNSPs certainty in their ability to value-stack batteries deployed as part of the program, thereby increasing the number of proponents applying for the program's funding. This will support a competitive process and ultimately deliver a more successful program. In this context we note that Ausgrid is proactively supporting potential battery proponents engage with us as the local DNSP, via our dedicated battery program website page: https://www.ausgrid.com.au/In-your-community/Community-Batteries/Community-Batteries-for-Household-Solar-Program.

We propose a simpler cost allocation model compared to the AER's, consistent with the ENA's submission. This alternative model ensures customers share in the realised benefits of storage capacity leasing into the future, is consistent with the broader economic regulatory framework and can be more easily audited. We provide further details in subsequent sections.

a. Waiver from clauses 3.1 - legal separation, 4.2.1- physical separation and 4.2.2- staff sharing of the Ring-fencing Guidelines

A ring-fencing waiver normally requires the AER to consider why ring-fencing obligations *shouldn't* apply to the delivery of the service in question. However, given this waiver is initiated by the AER to allow DNSPs to apply for funding consistent with the Government's policy intent, we consider the onus should be reversed. In other words, the AER should be assessing whether ring-fencing obligations *should* apply and only apply them if there is a net benefit case for doing so.

In any event, we consider that providing DNSPs with a waiver for the program is in the long-term interest consumers and consistent with the National Energy Objective as it presents:

- *No realistic risk of cross-subsidisation* as the proposed cost allocation and accounting reporting specifically seeks to address the risk of cross subsidisation;
- *The risk of discrimination is limited* by:
  - The significant reputation damage that would arise if a DNSP gave preference to its own battery proposal (or that of a related party) in anyway; and
  - Our access to funding and projects under the program would be jeopardised if DNSPs acted in a discriminatory manner;
- *A cyber security risk, and a breach of our licence conditions and associated state and federal regulations* may occur if we do not manage market partners' access to the community battery asset through our network control systems (e.g. Advanced Distribution Management System (**ADMS**)). It is not reasonable, prudent or efficient to require DNSPs to separate this out from our normal network asset operations; and
- *The program has safeguards to address anti-competitive behaviour* as:
  - The funding guidelines set out the terms of program participation; and
  - The program caps the funding pool and number of batteries.

  As such, DNSPs would not be able to progress with leasing out spare capacity in community batteries unless they successfully receive funding from the program.

b. Ausgrid's community battery trial

Ausgrid's is trialling three community batteries in our network area funded from our Network Innovation Allowance overseen by our Network Innovation Advisory Committee (**NIAC**).[1] The trial aims to test how community batteries benefits can be shared between local customers, the wider community, and the network. It also seeks to demonstrate how community batteries can put downward pressure on costs and support rooftop solar uptake by households and businesses.

These three trial community batteries are yielding significant learnings, which we are sharing publicly via our website and reporting to our NIAC. This includes understanding:

- The importance of community consultation;
- The adequacy of existing technical standards;
- Market partner interest and operation with community batteries;
- Environmental planning considerations; and
- Technical, safety, fire and cyber security issues.

We intend to build on these learnings should we be successful in obtaining funding from the program.

c. What customers are telling us about community batteries

In the lead up to this trial we engaged Newgate Research to conduct a customer survey on community batteries.[2] This research found that survey participants were most comfortable with DNSPs, such as Ausgrid, to deliver community batteries. In the survey 69 per cent rated their level of comfort with a score between 8-10 (10 being highest level of comfort) compared to lower scores for local councils, electricity retailers, local residential advocacy groups and a private battery company.

Following this, as part of our 2024-29 regulatory reset, we have engaged extensively with our customers to understand whether our communities value Ausgrid delivering community batteries, and – if so – why. Customers told us they valued Ausgrid delivering community batteries because they support wider renewable energy development and because they reduce the need for additional investment in 'poles and wires'.

[1] Ausgrid's innovation funding program expenditure streams and governance are co-designed by customers and incorporate ongoing, meaningful and transparent collaboration with customers, industry and academia. It ensures customers are at the centre of Ausgrid network innovation programs funding.
[2] Newgate Research (2021), *Ausgrid's Community Battery Concept: Customer Survey Report*, p 38.

2. We support the ENA's customer benefits model

Ausgrid agrees that under the class waiver, cost allocation and revenue sharing only needs to be considered where some of the asset's funding is allocated to the Standard Control Services (**SCS**) Regulatory Asset Base (**RAB**) i.e. 'Class B' projects – *and* the DNSP is leasing out spare battery capacity to a third party market partner.

However, we do not support the AER's proposed cost allocation model for Class B projects because it:

- Is complex to apply and audit;
- Requires networks to have robust forecasts of third-party revenue sources, which is unrealistic given current market immaturity; and
- Requires an unregulated funding contribution even if the project can be justified on quantifiable customer value alone, which is a significant departure from the current economic framework that does not require this.

Instead, we support the proposed 'customer benefits' model in the ENA's submission. This model would allow DNSPs to allocate the capital cost (net of government funding) to the RAB up to the value of quantified SCS customer benefits. The forecast quantified SCS customer benefit over the economic life of the asset is defined as:

> *The quantified benefit derived from the deployment of the asset for direct control services with reference to the AER's DER integration expenditure guidance note's benefits streams.*
>
> *Including:*
>
> - *Wholesale market – e.g. avoided generation capacity investment;*
> - *Network sector – e.g. avoided or deferred augmentation, replacement, reliability (power quality);*
> - *Environmental – e.g. avoided greenhouse gases;*
> - *Customer – supporting additional customer energy resources (**CER**) on the network (import and export); and*
> - *Other – such as innovation.*[3]

a. Recommended approach to revenue sharing

For the purposes of this waiver Ausgrid understands revenue from 'other distribution services' and 'other services' to be any revenue a DNSP receives from a third-party market partner (e.g. energy retailer) who leases any surplus capacity in the battery for a specified fee. We refer to this as 'unregulated revenue' in the remainder of the response.

Ausgrid supports the ENA's proposed approach to unregulated revenue sharing. This requires DNSPs to share *at least* 10 per cent of the unregulated revenue with SCS customers, where the revenue share is weighted as a proportion of the cost allocated to the RAB. This approach:

- Recognises that SCS customers are funding a portion of the battery (via the weighting);
- Adopts a minimum sharing ratio of 10 per cent which is consistent with the Shared Asset Guidelines approach; and
- Enables individual DNSPs to share more in line with their funding agreement[4] with the Commonwealth or ARENA while providing an incentive to invest in the program.

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[3] We are assuming that Community Battery investments are elig ble project under innovation allowances that a DNSP may have (such as Demand Management Innovation Allowance and Ausgrid's Network Innovation Allowance), subject to meeting the specific criteria of these allowances.

[4] The Stream 1 Business Hub funding guidelines require applicants to show how their 'project aligns with the policy intent […] of putting downward pressure on household electricity costs […] benefit the community and deliver on community expectations during and beyond the term of grant funding.', Stream 1 Funding guidelines, p 9.

Ausgrid considers that revenue sharing should also be net of the operating and maintenance costs incurred each year.

We consider that the AER can discharge its duties by assessing compliance against the revenue share floor (10 per cent) and ensuring the cost allocated to RAB is less than forecast of quantifiable customer benefits, while allowing for flexibility in how the policy objects are met and benefits are shared with the local community.

b. Hypothetical worked examples

We prepared two hypothetical examples for illustrative purposes only. Actual numbers will vary depending on factors such as: the local network, the asset location and size, the proponent's experience, revenue sharing percentage and contract with the market partner.

Example 1: Small battery (50kW, 100kWh)

- Total capital cost of project: $400k
- Government funding: $300k
- Quantifiable customer benefits: $220k
- Forecasted unregulated revenue over the life of the asset: $20k
- Actual unregulated revenue over the life of the asset: $48k

Parameters	AER model	ENA model
Residual (Project Cost minus Government funding)	$400k - $300k = **$100k**	
RAB funding	$\frac{\$220k}{\$220k+\$20k}$ x $100k = **$92k**	Lower of $100k and $220k = **$100k**
DNSP unregulated upfront funding	$100k – $92k = **$8k**	**$0k**
Revenue shared with SCS customers	None	$\frac{\$100k}{\$400k}$ x $48k x 10%+ = **$1.2k+**
Remaining value available	Unclear – forecast revenue used to secure upfront unregulated contribution	A portion of the **$46.8k** ($48k - $1.2k+) remaining revenue[5] could be leveraged to meeting the government funding agreement

[5] Noting that some of this revenue would be needed to offset operational cost not covered by government funding and to create a reasonable incentive for DNSPs to lease spare capacity.

Example 2: Medium battery (250kW, 500kWh)

- Total capital cost of project: $750k
- Government funding: $500k
- Quantifiable customer benefits: $400k
- Forecasted unregulated revenue over the life of the asset: $100k
- Actual unregulated revenue over the life of the asset: $240k

Parameters	AER model	ENA model
Residual (Project Cost minus Government funding)	$750k - $500k = **$250k**	
RAB funding	$\frac{\$400k}{\$400k+\$100k}$ x $250k = **$200k**	Lower of $250k and $400k = **$250k**
DNSP unregulated upfront funding	$250k – $200k = **$50k**	**$0k**
Revenue shared with SCS customers	None	$\frac{\$250k}{\$750k}$ x $240k x 10%+ = **$8k+**
Remaining value available	Unclear – forecast revenue used to secure upfront unregulated contribution	A portion of the **$232k** ($240k - $8k+) remaining revenue could be leveraged to meeting the government funding agreement

c. Challenges with the AER's proposed model

There are several challenges with the AER's proposed model including that:

- It requires networks to have robust forecasts of third-party revenue sources for the life of the asset, which is unrealistic[6] and difficult for the AER to assess given current market immaturity, whereas the ENA model is based on sharing realised revenues which does not require accurate forecasts of revenue for the life of the asset; and
- It requires an unregulated funding contribution even if the project can be justified on quantifiable customer value alone, whereas the ENA model does not require this;
- Stakeholders may hold concerns that DNSPs would be incentivised to significantly under-forecast unregulated revenue (in the worked example this is $20k and stakeholders may argue that DNSPs would be incentivised to forecast as low a value as possible); and
- DNSPs are incentivised to avoid ring-fencing by only undertaking projects that are fully government funded (i.e. reducing battery and therefore storage size) or avoid leasing out the spare capacity in batteries, reducing the overall program policy objectives, including:
    - Downward pressure on household electricity costs;
    - Contribute towards lowering emissions;
    - Provide a net benefit to the electricity network, having regard to matters such as network constraints; and
    - Support further solar installations.

In addition, it would reduce the incentive for DNSPs to participate in the government's community battery program and limit the ability to leverage revenue to support activities such as community outreach and engagement programs.

[6] Third-party market contracts are more l kely to be 3-years not 15-years (the life of the asset).

3. Other matters

a. Reporting and audit requirements should not duplicate the program guidelines and should align with existing AER reporting requirements

We understand that at the time of drafting the initiation notice for this waiver, the Business Hub funding guidelines were not available to the AER. As such, the program funding, reporting and audit requirements were not apparent, necessitating the AER to clarify the need for reporting and audits.

Under the program guidelines an applicant must already report regularly during the project delivery, and then provide an end of project report with a declaration. Additionally, an applicant must report annually for two years after the project end date and the Commonwealth, which the AER is part of, can request an independent audit report from applicants. This includes reporting on the ongoing outcomes and community benefits.

Where these provisions mirror those in the initiation notice they could represent a regulatory duplication that could be streamlined via the program's reporting process and via voluntary annual Regulatory Information Notices (**RINs**), which would be mandatory under the waiver should a DNSP not choose to report and audit via the ENA's proposed approach**.** Additionally, including community battery reporting as a new RIN item is timely given the AER's planned regulatory reporting reforms.

We recommend that the AER consider how it can align and streamline its reporting and audit approach with the funding body and existing AER audits and reporting to reduce regulatory burden on both AER staff and DNSPs.

b. A competitive process for market partners should not be required for the program

The Business Hub funding process opens funding to all DNSPs and third parties in the NEM, therefore it is a competitive process for awarding applicants funding. It is unnecessarily duplicative to require a competitive process for market partners in addition to this. No other applicant or joint applicants would need tender for a market partner in the same way. This requirement would impact project delivery timeframes.

We would support providing the AER with information about the market partner selection process on a commercial-in-confidence basis. This includes providing the AER with the terms and conditions of contracts with third party market partners within 20 business days of the contract's execution.