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09 October 2025

Ms Trudy Fraser
A/Executive General Manager Regulation
Energy Queensland

Sent by email to: [REDACTED]

Dear Ms Fraser

Re: Ergon Energy's ring-fencing waiver application to lease six new energy storage devices under Stage 3 of Energy Queensland's Local Network Battery Plan.

Thank you for your application received on 2 May 2025 for a waiver from the obligations in clause 3.1 of the Ring-fencing Guideline (electricity distribution) ('the guideline') to allow Ergon Energy to lease capacity of six battery energy storage system (BESS) devices.

Ergon Energy's proposal

Ergon Energy intends to install six BESS at various locations where there is a high forecast for increased local consumer energy resource (CER) penetration and is seeking a waiver to enable it to lease part of the capacity of these batteries to a third-party for participation in wholesale energy arbitrage, ancillary services, and other emerging markets.

The application noted that this BESS deployment is part of Stage 3 of Energy Queensland's Local Network Battery Plan (LNBP). The selection of third-party leasing partner Ergon Energy Retail for these BESS units was made based on the competitive commercial process undertaken during the Stage 2 of LNBP scheme.

The application seeks a waiver until 30 June 2040 from clause 3.1 of the guideline. Clause 3.1 of the guideline effectively prohibits Ergon Energy from leasing capacity in its energy storage devices. By waiving provision 3.1, Ergon Energy can lease this capacity to third parties and maximise the total value of battery storage systems.

Assessment

BESS devices are useful in supporting integration of CER, assisting in load transfers during network contingencies and enabling future network reconfigurations by grouping different BESS units.

Under clause 5.3.2 of the guideline, in deciding whether to grant a waiver, the AER must have regard to

- the National Electricity Objective (NEO),
- the potential for a distribution network to engage in cross-subsidisation of services and discriminatory behaviour, and

- whether the benefit to electricity consumers of the DNSP complying with the ring-fencing obligations would be outweighed by the cost to the DNSP of that compliance.

Following our consultation stakeholders noted that BESS waivers should ensure competitive neutrality and provide safeguards against any advantage that the leasing entity may have due to contractual arrangements with Ergon Energy.

The granting of the waiver broadly aligns with the NEO because the BESS units can provide operational support to ensure reliable, affordable and safe functioning of overall power systems in future. The AER considers that BESS units can play an important role in reducing energy costs for consumers.

Given most of the costs associated with these BESS units are funded by the Queensland Government, the cross-subsidisation risk is adequately addressed. The AER is satisfied that, under the proposed model of BESS ownership and sharing capacity with leasing partners, compliance with the cost allocation methodology sufficiently safeguards any probable risk of cross-subsidy.

The AER recognises that one of the most important barriers for the battery market is access to network data and therefore we sought feedback from Ergon Energy on sharing locational data more broadly. We understand that Ergon Energy has since shared the locational data for these BESS units through [Talking Energy webpages](#). They confirmed that battery connection proponents would continue to receive the same level of locational network information as other proponents via the [Network Capacity Map](#).

We also assessed potential risks of discrimination through recovery of storage tariffs and providing timely connections for contestable BESS providers. We recognise that having transparency on storage tariffs and connection times would help to mitigate these risks and therefore the AER has stipulated waiver conditions to report on large BESS connections and recovery of storage tariffs.

If the waiver is not granted to Ergon Energy, the BESS units may only be used for network events to regulate demand and supply on the distribution network. It means customers won't benefit from accessing surplus capacity, limiting the overall benefit that could be delivered by the BESS units. While this may increase competition, it will be a missed opportunity to understand a shared operational model for batteries and may also drive up the costs for customers in the long term. The AER considers that the benefit, or likely benefit, to electricity consumers of the AER requiring Ergon Energy to comply with the guideline's obligation 3.1 will likely be outweighed by the cost and foregone benefits to the DNSPs of being required to comply with that obligation.

Decision

Our decision is to grant a waiver to Ergon Energy from clause 3.1 of the guideline to enable Ergon Energy to lease capacity of six BESS units (each up to 4MW/8Mwh) under Stage 3 of Energy Queensland's Local Network Battery Plan.

The waiver is granted with the following conditions:

- A. Provide the AER with information on the contractual relationship between Ergon Energy and its retail partners. This information includes:
 1. the contractual terms and conditions and payment
 2. details of any priority access that the DNSP has to the BESS (such as in the event of a network contingency) and any requirements on the retail partner to maintain minimum charging of the BESS
 3. details of any revenue sharing arrangements in relation to the BESS.

This information should be provided to AERringfencing@aer.gov.au within 20 business days of the contract being finalised. Where there are changes to the contractual arrangement, the AER should be notified within 20 business days. We acknowledge the commercially sensitive nature of this information and will treat this information, accordingly, noting our policies regarding information privacy and disclosure of information.

- B. Ex-post public sharing of information about the battery (e.g., location(s), size, status of the project (trial or full scale roll out), intended purposes and uses, a key contact for external stakeholders if they wish to discuss the project further) and any useful learnings that will support the battery market.
- C. Provide on a calendar basis of a year-to-year comparison of the uses (volume and frequency) of the battery and an explanation of significant differences if observed from one year to another. The independent assessor, as part of annual ring-fencing compliance assessment under clause 6.2 of the Guideline, to confirm the annual usage and comparison values are accurate. This includes:
 - the total quantified benefit derived from the deployment of the battery from all services.
 - the total quantified benefit derived from the deployment of the battery from direct control services.
 - the total quantified benefit derived from the deployment of the battery from other distribution services and other services; and
 - a comparison of uses (volume and frequency) of the battery that confirms the usage by Ergon Energy and by its contracted third party, including the initial proposed allocation as a baseline against which the actual usage of the battery can be compared.

In addition, AER may request that Ergon Energy makes available to the AER, information on the performance of the batteries participating in this trial, such as the split between network and market benefits, when this is sought by the AER at any time during the tenure of the waiver.

- D. Ergon Energy must apply a tariff structure to its retail partners that are leasing BESS unit capacity that is no more favourable in aggregate than the tariff structure it applies to other distribution connected battery operators for a BESS of similar unit capacity having regard to the voltage and location of the connection. This includes, but is not limited to, storage tariffs and other charges for use of the distribution network. Where applicable, an identical tariff structure should be applied.
- E. Ergon Energy must include in its ring-fencing compliance reporting, information on any high voltage third-party BESS connection application requests received, and the connection timeframes for those connections. This must include a brief description of the project, whether the request is for a new connection or for the modification of a connection, the location of the connection, and the dates (if any) of the connection enquiry, connection application, connection offer, and commissioning of the final connection. Where a new connection request or a request to modify an existing connection is denied or is only agreed to by Ergon Energy in a substantially modified form (i.e. >20% reduction in nominal capacity), an explanation of the grounds for denial or modification must be included.

Waiver duration

We have accepted the suggested waiver tenure and have decided to grant the waiver until 30 June 2040. We concluded that this aligns with the economic life of the battery units.

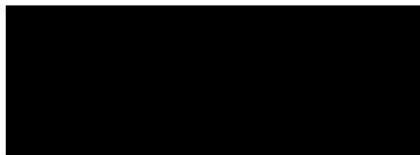
Compliance and review matters

The AER will use any data collected as part of waiver conditions among other things to monitor compliance with the waiver, gain insight into how these BESS are providing benefits to consumers and potentially inform further development of the contestable flexibility market. The AER has broad discretion to review and revoke ring-fencing waivers that it grants, at any time on its own initiative if there are grounds to do so. Pursuant to clause 5.5 of the guidelines, in deciding whether to vary or revoke the waiver, the AER will have regard to the same matters for granting the waiver under clause 5.3.2 of the guideline. A minimum of 40 days' notice will be given to Ergon Energy that the AER is considering a variation or revocation of this waiver.

Ergon Energy is reminded that, under clause 6.3 of the guideline, Ergon Energy is required to notify the AER in writing within 15 days of becoming aware of a breach of its obligations under the guideline.

If you would like to discuss this matter further, or have any questions, please contact Laura Considine, Director, New Markets and Innovation, by email to AERringfencing@ aer.gov.au in the first instance.

Yours sincerely



Jarrod Ball
AER Board Member

Sent by email on: 09.10.2025