

Contact Officer: Mark Feather  
Contact Phone: [REDACTED]

13 February 2023

Colin Crisafulli  
Head of Network Regulation  
Endeavour Energy

Sent by email to [REDACTED]

Dear Colin

Thank you for your letter dated 15 December 2022 regarding Endeavour Energy's request for a waiver from clause 3.1 of the Ring-fencing Guideline for Electricity Distribution (**the guideline**) to allow it to conduct a trial with a confidential retail partner, by leasing three battery energy storage systems (**BESS**) across the Endeavour Energy network.

### **Endeavour Energy's proposal**

We understand that Endeavour Energy intends to use three BESS for standard control services in areas of high customer energy resource penetration, while leasing capacity to its confidential retail partner. The retail partner will use leased capacity to:

- provide storage services to consumers who are seeking to participate in a community battery trial;
- participate in wholesale energy arbitrage;
- provide ancillary services;
- participate in other emerging markets; and
- sub-lease battery capacity to other third parties to provide a storage solution.

The stated aims of the project as whole are to gain knowledge about how to maximise the benefits of the three BESS. Specifically, the project will consider, cost allocation, risk apportionment and geographical benefits that a BESS can offer when operated with a third party within a network dynamic operational envelope.

### **AER assessment and decision**

The guideline specifies that, in assessing a waiver application, we will have regard to the National Electricity Objective; the potential for cross-subsidisation and discrimination; and the benefit, or likely benefit, to consumers from the DNSP complying with the obligation, relative to the cost to consumers from the DNSP complying with the obligation.

The trial described in Endeavour Energy's application creates potential for innovation and learnings for a market which is still in its infancy. Public sharing of trial learnings is likely to provide other market participants or prospective future participants with valuable information and remove a small degree of uncertainty from investment decisions.

The guideline contains a number of obligations to prevent discriminatory behaviour by a DNSP in favour of another entity such as a related electricity service provider (namely those obligations are set out in clauses 4.1 and 4.3). These obligations cannot be waived. To ensure ongoing compliance with this clause, as a condition of this waiver, Endeavour Energy

is required to share with the AER information on the contractual relationship between itself and its retail partner. This will provide ongoing comfort that Endeavour Energy is complying with its obligations as set out in clause 4.1. We are however satisfied that the tendering process described in the application, appears to have been comprehensive and fair.

In its application, Endeavour Energy has advised that a component of each BESS will be allocated to the Regulatory Asset Base (RAB). We understand that the component of each project which is allocated to the RAB is limited to costs that are directly related to network services. We note that the application was submitted prior to the AER's Community Batteries for Household Solar Class Waiver which was published on 3 February 2023 (**class waiver**). Under the class waiver, the AER developed a standard of cost allocation whereby DNSPs must determine the total benefit that will be derived from the asset, by forecasting the benefits relating to both network and non-network use. Only the proportionate share reflecting network benefits can be allocated to the RAB under the class waiver.

In this application, Endeavour has forecast network benefits with an estimated figure, while quantifying non-network benefits using a range. This approach is not as comprehensive as the forecasting approach required under the class waiver. If assessed under the class waiver, Endeavour's use of a range to estimate non-network benefits would not fulfill the AER's requirements.

It should be noted the project proposed by Endeavour Energy does not include any component funded by the Commonwealth Government and therefore does not fall within the criteria for the class waiver. On the face of the application, the AER does not currently have material concerns with cross-subsidisation. However, we note to Endeavour Energy as well as other DNSPs that our approach to future waiver applications will be informed by learnings from the class waiver; and the standards applied to applicants will likely become more closely aligned. With the information which will become available through the class waiver process, we are likely to expect a greater level of precision when forecasting network and non-network benefits prior to RAB allocation. We will also expect DNSPs to demonstrate that network and non-network benefits are accounted for on a mutually exclusive basis such that no identified network benefit is also counted as a non-network benefit or vice versa. This ensures that the costs recovered from both network and non-network users are proportionate to the forecast benefits.

We will monitor Endeavour Energy's use of the battery and reported revenue as it relates to the current allocation of costs. This data, along with the data received from class waiver participants, will inform future cost allocation approaches to energy storage services, and contribute to achieving more precise forecasting in the future.

We have decided to grant a waiver from clause 3.1 of the guideline to allow Endeavour Energy to lease excess capacity from the three BESS to its retail partner for the purposes of a community battery trial. The waiver is provided until 31 December 2037 (the anticipated life of the batteries). The waiver is granted on the basis that the assets and associated costs are subject to reporting, and with a note that the AER reserves its right to amend its approach to considering future streamlined waiver applications as and when more information becomes available from class waiver participants.

## **Conditions**

The following conditions apply with this waiver approval:

- Providing the AER with information on the contractual relationship between Endeavour Energy and its retail partner. This information includes the contractual terms, conditions and payments. This information should be provided to [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au) within 20 business days of the contract being finalised.

Where there are changes in this 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. Included at **Appendix A** to this letter is a template which may be used for the provision of this information.

- Ex-post public sharing of information about the batteries (e.g., location(s), size, intended purposes and uses, and a key contact for external stakeholders if they wish to discuss the project further) and any useful learnings that will support the battery market.
  
- Providing the AER, as part of Endeavour Energy's independently audited annual ring-fencing compliance report that is required under clause 6.2 of the guideline:
  - The total quantified benefit derived from the deployment of the BESS from all services over the most recent financial year;
  - The total quantified benefit derived from the deployment of the BESS from direct control services over the most recent financial year;
  - The total quantified benefit derived from the deployment of the BESS from other distribution services and other services over the most recent financial year; and
  - A comparison of uses (volume and frequency) of the battery that confirms the usage by Endeavour Energy and by its retail partner, including the initial proposed allocation as a baseline against which actual usage of the BESS can be compared.

If you would like to discuss further, or have any questions, please contact Mark Feather, General Manager, Strategic Policy and Energy Systems Innovation Branch, on [REDACTED] or [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au) in the first instance.

Yours sincerely

[REDACTED]

Justin Oliver  
Member

Sent by email on: 13.02.2023

## Appendix A

### Battery Lease Agreement

The below table is a non-exhaustive form which must be completed by Endeavour Energy pursuant to the AER's Ring-fencing waiver dated 15 February 2023.

When completing this form, Endeavour Energy must not only respond to the prompts, but provide any further terms or conditions which it reasonably considers may be material to the AER.

Please note that the AER may require Endeavour Energy to provide a copy of the contract.

The AER acknowledges the commercially sensitive nature of this information and will treat it accordingly, noting our policies regarding information privacy and disclosure of information.

Endeavour Energy is required to return this form within 20 days of the contract being executed. Where there are any changes to the contractual arrangement, the AER should be notified within 20 business days.

**Contract supplied by:** Endeavour Energy [contact person] on [date]

<b>Contractual Information</b>	<b>Contract clause no.(s)</b>	<b>Excerpt/Commentary</b>
<b>Parties and contact details for each party</b>		
<b>Term</b>		
<b>Payments and/or method of calculating payments and (if applicable) market rate benchmarking</b>		
<b>Codification of ring-fencing</b>		
<b>How the contract addresses the other requirements of the Guideline including but not limited to information sharing</b>		
<b>The volume of capacity (in kW or kWh) leased under the contract</b>		
<b>Which party controls the operation of the battery and on what terms.</b>		
<b>Include any relevant terms and conditions which the DNSP considers may be material, including but not limited to: any favourable/unfavourable terms for one party; or anything otherwise demonstrating the agreement is/is not an arms' length commercial transaction between unrelated parties</b>		