

Contact officer: Mark Feather
Contact Phone: (03) 9290 6958

GPO Box 520
Melbourne VIC 3001
Telephone: (03) 9290 1444
Facsimile: (03) 9290 1457
www.aer.gov.au

2 June 2022

Nicola Roscoe
General Manager, Strategy Regulation
Energex

Sent by email to: Nicola.Roscoe@energyq.com.au

Dear Nicola

Thank you for your letter of 17 May 2022 regarding Energex's request for a waiver from clause 3.1 of the Ring-fencing Guideline for Electricity Distribution (**the guideline**) to allow it to lease excess capacity from 35 pole and ground mounted batteries.

In our November 2021 Explanatory Statement to the guideline, we identified criteria that a waiver application for an energy storage device needs to meet to be considered through our streamlined waiver process. As Energex has identified that the 35 batteries are not in its Regulated Asset Base, the application meets the criteria for consideration under the streamlined waiver process.

Energex's proposal

We understand that Energex wants to install up to thirty pole and five ground mounted lower voltage connected batteries at various locations on the Energex distribution network. Energex will own the batteries and use them for distribution services in areas of high distributed energy resource penetration. Origin Energy will use the excess capacity from the batteries for providing general market services as well as other customer storage offers.

The purpose of the project is to explore customer, market and network benefits, and investigate potential business models.

We note that Energex intends to apply at a later date for a waiver that would allow it to provide, install and maintain metering installations that are part of the battery design. This application will be assessed separately.

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.

This is a trial and creates potential for innovation and market learnings that Energex can use in managing its network as well as publicly sharing non-commercially sensitive learnings.

We understand the project has been funded by Energy Queensland and Origin Energy, and is excluded from Energex's Regulatory Asset Base, meaning there is unlikely to be potential for cross-subsidisation. Any ongoing costs will also be excluded from Energex's regulatory operating costs. We note the trial will develop learnings on methodologies for including batteries or portions of batteries into the RAB in the future.

The guideline has a number of obligations to prevent discriminatory behaviour in favour of a particular entity (namely those obligations set out in clause 4.1 and 4.3). These obligations cannot be waived. Based on the information Energex has provided we believe that the application is compliant with these obligations.

We have decided to grant a waiver from clause 3.1 of the Guideline to allow Energex to lease the excess capacity from up to 35 batteries to Origin Energy. The waiver is provided until 30 June 2035 (the estimated life of the batteries). The waiver is granted on the basis that the assets remain excluded from the Regulatory Asset Base and subject to the conditions below.

Conditions

The following conditions apply with this waiver approval:

- Providing the AER with information on the contractual relationship between Energex and Origin Energy. This information includes the contractual terms, conditions and payments. This information should be provided to 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.
- Ex-post public sharing of information about the battery (e.g., location(s), size, intended purposes and uses, approved cost allocation method, and a key contact for external stakeholders if they wish to discuss the project further) and any useful learnings from the battery usage that will support the battery market.
- Provide on an annual basis a comparison of the uses (volume and frequency) of the battery that confirms and differentiates between Energex network usage and spare capacity leased to Origin Energy, and an explanation of any differences between forecast and actual usage. The independent assessor, as part of the annual ring-fencing compliance assessment, is to confirm the comparison is accurate.

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 (03) 9290 6958 or AERringfencing@ aer.gov.au in the first instance.

Yours sincerely



Justin Oliver
AER Board Member