

Contact Officer: Mark Feather
Contact Phone: [REDACTED]

20 October 2022

Natalie Lindsay
Acting Executive General Manager – Corporate Affairs
Essential Energy

Sent by email to: [REDACTED]

Dear Natalie

Thank you for your letter dated 21 September 2022 regarding Essential Energy's request for a waiver from clause 3.1 of the Ring-fencing Guideline for Electricity Distribution (**the guideline**) to allow it to trial the joint ownership and operation of 35 pole top 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 Essential Energy has identified that the 35 batteries will not be in its Regulated Asset Base, the application meets the criteria for consideration under the streamlined waiver process.

Essential Energy's proposal

We understand that Essential Energy intends to install 35 pole top batteries at various locations on the Essential Energy distribution network. Essential Energy will jointly own the batteries with a confidential retail partner (disclosed to the AER) and use them for distribution services in areas of high consumer energy resource penetration. The retail partner will use the excess capacity for market services and potential customer storage offerings.

The aims of the project include to understand the benefits and challenges of pole-mounted battery solutions in terms of standards, regulation, network need, commercial considerations of third-party operators, and customer access to new services.

We note that Essential Energy intends to apply at a later date for a waiver that would allow it to install and operate metering assets on the batteries which are the subject of this waiver. This application, when received, 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 Essential Energy can use in managing its network with non-commercially sensitive information on the outcomes being publicly shared.

In your letter you have advised that the project has been equally funded by Essential Energy and its retail partner and is excluded entirely from Essential Energy's Regulatory Asset Base

(RAB), meaning there is unlikely to be potential for cross-subsidisation. Any ongoing costs are to be excluded from Essential Energy's regulatory operating costs. Although this project is not included in Essential Energy's RAB, we will monitor the use of the battery for network services and expect that data on battery use will inform future cost allocation approaches to energy storage devices.

The guideline has a number of obligations to prevent discriminatory behaviour in favour of a particular entity (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, Essential 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 Essential Energy is complying with its obligations as set out in clause 4.1.

We have decided to grant a waiver from clause 3.1 of the guideline to allow Essential Energy to install, own, and operate 35 pole top batteries jointly with its retail partner. The waiver is provided until 30 June 2037 (the estimated life of the batteries). The waiver is granted on the basis that the assets and associated costs remain excluded from Essential Energy's RAB 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 Essential Energy and its retail partner. 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, 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.
- Provide the AER annually with a comparison of the uses (volume and frequency) of the battery that confirms the usage by Essential Energy, and usage by its retail partner. 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 [REDACTED] or AERringfencing@ aer.gov.au in the first instance.

Yours sincerely

[REDACTED]

Justin Oliver
AER Board Member

Sent by email on: 20.10.2022