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4 October 2022

Trent Gibson
Compliance Analyst Regulation
CitiPower, Powercor Australia and United Energy

Sent by email to: trgibson@powercor.com.au

Dear Trent

Thank you for your application of 16 August 2022 and further information provided on 13 September requesting a waiver from clause 3.1 of the Ring-fencing Guideline for Electricity Distribution (the guideline). The waiver is to allow Powercor Australia Limited (Powercor) to lease excess capacity from its Tarneit battery.

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. In this instance, we consider the potential for cross-subsidisation has been sufficiently addressed through Powercor's proposed cost allocation methodology, which is subject to AER monitoring and reviewing, as necessary. Taking into consideration the trial elements of this project, the application has met the criteria for consideration under the streamlined waiver process.

Powercor's proposal

We understand that Powercor proposes to trial a network community battery (approximately 120kW/360kWh) in the Tarneit area of Melbourne, VIC. The trial is part of the Victorian Government's Neighbourhood Battery Initiative and has secured funding from this initiative. The project has also received in-principle approval for funding under the Demand Management Innovation Allowance (DMIA). Powercor will own the battery and use it for distribution services. A non-affiliated third party will use the excess capacity from the community battery for providing frequency control ancillary services and arbitrage services, only when it is not required by Powercor.

The purpose of the project is to trial community battery use in terms of network and other services, to inform future cost allocation approaches, to understand how to define the roles of Powercor and the third party to inform future contractual arrangements, and to enable greater solar exports from community battery consumers.

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 distribution network service provider

(DNSP) complying with the obligation, relative to the cost to consumers from the DNSP complying with the obligation.

The AER considers the benefits of this trial include that it creates potential for innovation and market learnings that Powercor can use in managing its network business as well as publicly sharing non-commercially sensitive learnings. We also note that Powercor indicates that it is using the battery as an efficient alternative to augmentation upgrade costs, and that leasing the battery to a third party drives efficient utilisation of the asset through the creation of additional value streams. Additionally, this trial achieves an objective of the Victorian Government Neighbourhood Battery Initiative to enable more customers to export more solar energy than they would otherwise be able to.

A component of this project is included in Powercor's Regulatory Asset Base (RAB). We understand that the component of the project that is allocated to the RAB is limited to costs that are directly related to network services. We understand that this will exclude costs that have been subsidised by others (for example, the funding received from the Victorian Government for the Neighbourhood Battery Initiative and the DMIA funding). We will monitor Powercor's use of the battery for network services and the consequent allocation of costs to the RAB. The data will also 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 set out in clause 4.1 and 4.3). These obligations cannot be waived. Powercor has contracted a non-affiliated third party to use the excess capacity from the battery. Due to the time limitations involved with Powercor's application for funding from the Victorian Government's Neighbourhood Battery Initiative, Powercor was not able to run a full market-testing process to select a third-party retailer. Instead, Powercor privately contacted three non-affiliated third parties to assess their appetite to contract with Powercor to use the excess capacity from the battery. As the selected third-party retailer is a non-affiliated entity, we have assessed Powercor as being compliant with the guideline's obligations for preventing discriminatory behaviour. However, we note that in future it is preferable for a full market-testing process to be conducted.

We encourage DNSPs when developing battery projects and waiver applications to demonstrate how they have considered information from other trials (for example, ElectraNet's Dalrymple ESCRI-SA battery project) and will ensure knowledge transfer of battery implementation approaches and network and consumer use benefits occurs.

We have decided to grant a waiver from clause 3.1 of the Guideline to allow Powercor to lease the excess capacity from its Tarneit battery. The waiver is provided for 10 years and 9 months, until 30 June 2033. In making this decision we have viewed Powercor's cost allocation methodology. The waiver is subject to the conditions below.

Conditions

The following conditions apply with this waiver approval:

- Providing the AER with information on the contractual arrangement between Powercor and the third-party retailer. This information includes the contractual terms, conditions and payments. This information should be provided to AERringfencing@er.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 Powercor's network usage and spare capacity leased to the third party, and an explanation of any differences between forecast and actual usage.
 - This includes the total period of time (to the nearest five-minute increment) that the battery is operating at the direction of Powercor and the total period (to the nearest five-minute increment) of time that the battery is operating at the direction of the third party.
 - The independent assessor, as part of the annual ring-fencing compliance assessment, is to confirm the comparison is accurate and the appropriate cost allocation was applied between the regulated and unregulated uses of the battery.

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