AUSTRALIAN ENERGY REGULATOR

Verbal feedback session

Australian Government's Community Batteries for Household Solar Program – proposed ring-fencing class waiver

The Community Batteries for Household Solar Program

- In October 2022, the Australian Government announced $200 million in grant funding for the Community Batteries for Household Solar Program to support the deployment of community batteries across Australia.
- $29 million to be administered by the Business Grants Hub and $171 million to be administered by ARENA.
- The Program aims to deploy community batteries across Australia to lower bills, cut emissions and reduce pressure on the electricity grid by allowing households to store and use the excess power they produce.

Proposed class waiver

What is the purpose of the class waiver?

- To allow DNSPs to lease out spare capacity from batteries funded under the Government’s Community Batteries for Household Solar Program.

Why do DNSPs require a ring-fencing waiver to lease battery capacity?

- Leasing capacity is prohibited by the guideline’s legal separation and functional separation requirements.
- These obligations can be waived if the AER considers the potential benefits outweigh potential harms, amongst other things.

What are the benefits of DNSPs leasing battery capacity?

- Provides access to an additional revenue stream, supporting more projects to enter the market.
  - However, DNSPs will be using regulated electricity supply assets to earn unregulated revenue through leasing. This revenue will not flow back to consumers.
- Community batteries have the <u>potential</u> to provide many benefits and services including environmental and community (through storing rooftop solar generation that the community can access); offsetting other more expensive network upgrade projects.
- AER recognises the practical role that DNSPs will play in the role-out of batteries under the Program.

Terms of proposed class waiver

Obligations to be waived: legal separation (clause 3.1) and functional separation (clauses 4.2.1 and 4.2.2 of the guideline)

Class that the waiver will apply to: DNSP-led projects funded under the Government's Community Batteries for Household Solar Program, where:

a. the asset is not allocated to a DNSP's Regulatory Asset Base (RAB); or

b. what is allocated to the RAB is only the part of the total residual cost of the asset that reflects the proportionate share (that relates to *direct control services*) of the total quantified benefit that is forecast at the time the investment decision is made.

   i. (*shortened*) the DNSP must include in its regulatory proposal evidence, such as an NPV assessment, and a report from an independent auditor that confirms compliance with this provision b).

Period of class waiver: ~15 years (anticipated life of the battery assets).

Cost allocation – key policy considerations

RAB allocation principle: we have proposed wording to deal with allocation of costs between regulated electricity customers and unregulated revenue streams, this may be refined through this consultation process.

Key policy considerations: in drafting the high-level principles around allocation to the regulated asset base, the AER’s key policy intent is to:

- Ensure that the costs to regulated electricity customers do not exceed the benefits.
- Ensure that non-network services are not cross-subsidised through the provision of network services.
- The criteria proposed are designed to provide us with transparency over the use of the battery and ensure that the risk of cross-subsidisation impacting consumers is minimised. The criteria also provide additional protection against this through the revenue determination process which will give scrutiny to any costs that are to be recovered through the regulated asset base, funded by all electricity consumers.

Terms of proposed class waiver (continued)

<u>The follow criteria only apply to projects in class (b):</u>

1. **A DNSP must comply with the Cost Allocation Principles to appropriately allocate and attribute costs for use of the asset between *direct control services*, *other distribution services* and *other services*.**
2. **A DNSP must provide, as part of that DNSP's regular annual compliance reporting, an independent audit that covers:**
   a) the total quantified benefit derived from the deployment of the asset for all services over the most recent calendar year,
   b) the total quantified benefit derived from the deployment of the asset from direct control services over the most recent calendar year, and
   c) the total quantified benefit derived from the deployment of the asset from other distribution services and other services over the most recent calendar year. (Note: the benefit in 2.a. should be the sum of the value in 2.b. and the value in 2.c.)
   d) a comparison of the uses (volume and frequency) of the battery that confirms the usage by the DNSP and usage by its retail partner (or other third party), including the initial proposed allocation as a baseline against which actual usage of the assets can be compared.

Terms of proposed class waiver (continued)

The following criteria apply to projects which fall within class (a) or (b):

3. **Information as to the terms and conditions of the contracts entered into with third parties for the leasing of battery should include:**
   a) The name of the contracting party or parties;
   b) The volume of capacity leased to that party or parties;
   c) The price the capacity is leased for;
   d) Which party controls the operation of the battery and on what terms.

Timeline and next steps

Date	Milestone
2 December 2022	Publication of initiation notice
→ 13 December 2022	Virtual feedback session
12 January 2023	Submissions close
3 February 2023	AER issues decision and statement of reasons

If you would like to consult individually with the AER or have any questions, please contact AERringfencing@aer.gov.au.