AUSTRALIAN ENERGY REGULATOR

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Our Ref: D17/93105

14 July 2017

Rainer Korte
Executive Manager Asset Management
ElectraNet
PO Box 7096
Hutt Street Post Office
Adelaide SA 5000

Dear Mr Korte

Re: Regulatory Treatment of Battery Storage Project

I write in response to your letter to Sebastian Roberts, dated 21 June 2017, in which you propose to amend ElectraNet's Network Capability Incentive Parameter Action Plan (NCIPAP) in its transmission STPIS for 2015-16 to 2017-18 to include the Energy Storage for Commercial Renewable Integration South Australia (ESCRI) Project. The views below reflect those of AER staff.

As identified in your letter, there are two significant issues to address. The first is the incorporation of ESCRI in NCIPAP under the Scheme. The second is ElectraNet's proposed cost allocation (attribution) of the ESCRI project. I address each issue separately below.

In your letter you describe ElectraNet's NCIPAP as having a cap of $10.0 million ($nominal), equivalent to 1% of the average maximum revenue allowance for the 2015-16 to 2017-18 years. You further propose ElectraNet would defer two NCIPAP projects and substitute the ESCRI project, resulting in a total cost of $10.0 million.

We accept that the ESCRI project is broadly consistent with the Network Capability Component of the NCIPAP under the Scheme. We therefore accept ElectraNet's proposed approach. I note ElectraNet will report relevant information for the removal and substitution of the NCIPAP projects in the STPIS compliance report to be submitted to us in early 2018.

With respect to cost allocation, in your letter you propose to directly attribute the project's capital costs (funding) according to the funding source. Under this approach ARENA grant funding ($12.0 million) would effectively be excised from attributed costs; AGL's lease would be attributed to unregulated services; $1.6 million would be dealt with as capital cost offsets; the residual ($5.8 million) would be attributed to ElectraNet's prescribed transmission services. You further propose to allocate ESCRI's ongoing operational costs in the same proportions as the capital costs, as described above. This means ElectraNet's transmission customers would face around 20 per cent of both the upfront capital costs and ongoing operational costs.

Cost allocation of distributed energy resources capable of providing both regulated and unregulated services is new to Australian energy networks. At this time there is no well accepted cost allocation approach across the sector. In its absence we do not wish to impede ElectraNet's establishment of this new asset. ElectraNet's proposed approach appears to result in a reasonable outcome for prescribed transmission customers and on that basis we consider it a practical way forward in this instance.

I should note, however, that we do not consider this to be a precedent for cost allocation of all future projects. Rather, the ESCRI project is relatively unique in its mix of funding sources. For this reason the direct attribution method described in your letter, which results in cost allocation weighted away from customers of ElectraNet's monopoly network services, seems to be a reasonable approach given the nature of this asset and how it is expected to be used.

If you have any queries regarding this matter please contact Moston Neck or Dale Johansen in the first instance. Moston can be contacted on (07) 3835 4669 or alternatively via email on moston.neck@aer.gov.au. Dale Johansen's direct number is 07 3835 4679 and email dale.johansen@aer.gov.au.

Yours sincerely

Chris Pattas
General Manager, Networks