Response to **AER draft Ring-fencing Guideline**

General Manager
Australian Energy Regulator
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To the Australian Energy Regulator,

The Battery Storage and Grid Integration Program welcomes the opportunity to provide our comments in response to the AER draft Ring-fencing Guideline (Electricity distribution) (version 3).

This draft response outlines the AER's position on updating the Electricity Distribution Ring-fencing Guideline to reflect the changing nature of services offered by distribution businesses, particularly the use of new technology such as stand-alone power systems and storage devices.

Essentially, we **support** the AER draft position on ring-fencing of storage devices. That is;

(1) DNSPs should be prohibited from providing contestable services with a battery (whether the service consists of the supply of excess capacity to third parties, or the provision of other contestable services themselves with the battery).
(2) However, a DNSP should be able apply to us for a waiver in situations where a DNSP wants to supply excess capacity of a battery to a third party in circumstances where it considers the benefits outweigh the harm.

However;

(1) The waiver should be minimally onerous, particularly if the DNSP is only a part-owner. A model has already emerged in the market where the DNSP will be a co-investor[1].
(2) Prior to applying for a waiver, the DNSP should be required to test the market for alternative solutions where the DNSP could procure network support services from a potential battery owner using existing mechanisms for doing so e.g. DMIS/DMIA and RIT-D payments.
(3) The AER should prioritise the simplification of mechanisms for DNSPs to procure energy storage services from third parties. Currently, DMIS/DMIA and RIT-D payments seem to be too complex to be used in practice.

Our support for the draft position on this Guideline is motivated by the fact that energy management solutions required to support the energy transition will need to provide both technical support, but also meet public expectations of the energy transition. Successful solutions will be those that reflect customer values which, according to our research, include not only cost but also sustainability, resilience, transparency, fairness and energy sovereignty. As we outline below, our research suggests that other parties may be well placed to offer such energy management solutions to customers.

[1] https://www.yef.org.au/our-stories-and-events/seeking-victorias-first-solar-sponge-community-battery-network/

Other parties may be well-placed to offer energy storage services that customers want:

Here we are guided by our ARENA-funded work investigating community batteries[2], which told us that:

- Householders are likely to be sceptical of community battery models that cannot clearly demonstrate that they will genuinely benefit the local community. A strong preference was shown for models that are simple to interact with, owned by local government and that are run as a not-for-profit entity.
- Our analysis reveals some differences in expectations between the general public and energy sector professionals about future models of community batteries - centred around questions of ownership, in which the general public envision a minimal role for large retailers and networks.
- Householders are not simply concerned about energy affordability but have a range of values and expectations for future energy systems.
- Energy users tend to not want to engage with industry incumbents. Trust levels are low. There is substantial public support for community energy models that are owned and operated by trusted local organisations.
- There is interest from many third parties to own energy storage, including councils, investors and community energy groups. In particular, councils may be in a financial position where they could buy larger-scale energy storage to support their communities.

The important role for DNSPs in integrating energy storage:

DNSPs have an essential role to play in integrating energy storage into our energy system and are well-equipped to ensure the network services that battery storage can provide are delivered e.g. voltage support, peak demand management to defer network upgrades, managing fault levels in areas with high levels of solar generation, phase balancing etc.

There are currently mechanisms in place for DNSPs to pay third parties for these network services e.g. through the demand management incentive scheme and innovation allowance (DMIS/DMIA), and the regulated asset investment test for distribution grid (RIT-D).

However, DNSPs report that the market for acquiring these services is underdeveloped and the purchase of these solutions is currently too expensive. There is clearly a need to ensure that current mechanisms for acquiring these services are practical, affordable and attractive for all parties to engage with. The services must be properly valued so that battery storage is installed where it's needed on the network.

Fortunately, there is plenty of enthusiasm and funding to support the development of payment mechanisms for battery services. New business entities are also emerging e.g. aggregators, to work together with DNSPs to manage energy storage assets. AER should support these efforts.

In summary, we support the AER draft position and believe it to be an important position to take in order to fully encourage a market for innovative energy storage solutions that customers will choose to participate in. The important role for DNSPs in integrating and utilising energy storage to support the future grid must also be developed, either through current mechanisms, or through new mechanisms if they are needed.

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[2] https://arena.gov.au/projects/community-models-for-deploying-and-operating-distributed-energy-resources/