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Dear Dr Funston

Ausgrid submission to the AER Framework and Approach Preliminary Position Paper

Thank you for the opportunity to provide a submission on the Australian Energy Regulator's (AER) Framework and Approach (F&A) Preliminary Position Paper (Position Paper). Ausgrid appreciates the collaborative approach that the AER has taken to support Ausgrid's request for a revised F&A for our next regulatory control period commencing on 1 July 2024 and ending 30 June 2029 (2024-29).

Attachments A and B set out Ausgrid's response to the Position Paper and associated consultation questions on community batteries and export services.

The Energy Security Board, along with other market bodies and market participants, is implementing a series of reforms over the next 3 years that will allow customers to benefit from the rapidly changing technologies in our power systems. These reforms envisage a role for distribution network service providers (DNSPs) to operate as distribution system operators or 'DSOs'. This includes leveraging new solutions such as community batteries and offering system support services. As such, we encourage the AER's approach to service classification for 2024-29 to remain flexible given the change in policy and market design expected over the next 3 years.

Community batteries

Our response to the AER's preliminary positions on service classification for the facilitation and use of leasing out spare capacity in platform assets (such as community batteries) can be summarised as follows:

- The AER has a role to recognise Ausgrid's request to classify the facilitation of excess battery capacity as a standard control service (SCS);
- Ausgrid recommends that from 1 July 2024 the:
 - *facilitation of* leasing out spare capacity in a platform asset be classified as SCS;
 - *use of* the leased spare capacity remains an unregulated service where regulated asset base treatment and unregulated revenue sharing is dependent on the primary driver of the initial investment set out in **Table 1**.

Ausgrid also welcomes the opportunity to discuss how the models for community battery cost allocation and revenue sharing in **Table 1** could be applied within Ausgrid's current regulatory control period.

Export services

Following further discussions with stakeholders and the AER, we continue to recommend that Ausgrid's F&A treat export services as a SCS. However where a connection applicant requires assets to be designed and constructed to above and beyond the distributor's standards and policies then an ACS classification is more appropriate. We envisage that the ACS classification would only occur in very rare circumstances. This approach is aligned with the existing classification of consumption services (see **Attachment B**), and is consistent with the Export Tariff Guideline recently published by the AER.

Material change in circumstances

The classification of distribution services has never been more complex. There is unprecedented dynamic and fast-paced reform and innovation underway within the NEM with both Federal and State energy policies are evolving. The AER's release of a Preliminary Position Paper reflects this.

Ausgrid notes the 'material change in circumstances' (**MCIC**) provisions exist to enable an F&A to be amended in the draft and final determinations. The MCIC provisions provide the AER, DNSPs and customers with the flexibility needed to be responsive to the current significant rate of innovation and change. We encourage the AER to minimise the potential for unintended consequences from taking (what could be perceived as) a firm final position on Ausgrid's F&A by 31 July 2022. We support the Position Paper's references to using the MCIC provisions in recognition of these uncertainties.

We welcome the opportunity to meet with AER staff to further discuss our response. Please contact Alex McPherson, Head of Regulation at [REDACTED]

Regards,

[REDACTED]

Rob Amphlett Lewis
Chief Customer Officer

Attachment A: Ausgrid response for classifying leasing out spare capacity in batteries

The AER should commence further work to ensure that the Ring Fencing Guideline follows service classification

The AER's Ring Fencing Guideline prohibits DNSPs from leasing out spare capacity in a community battery to third party customers without a waiver. However, the starting point in the economic regulatory framework is service classification, followed by ring fencing. The Australian Energy Market Commission (AEMC)'s *Contestability of Energy Services rule change* further clarified this matter and stated that (our emphasis):

*'Service classification is the basis for the application of ring fencing, cost allocation and asset sharing arrangements.'*¹

And

*'Distribution service classification is the first step in the economic regulatory framework for DNSPs under the NER because it determines which services will be economically regulated and in what form. This is a key input into DNSPs' regulatory proposals and the AER's distribution determinations.'*²

Ausgrid disagrees with the AER's statement in the Position Paper that the Ring Fencing Guideline already addresses service classification for facilitating the lease of excess battery capacity. This is because ring-fencing should not be determinative of service classification. Therefore, Ausgrid disagrees that the AER 'does not have a role in recognising' Ausgrid's request for the AER to classify the facilitation of spare battery capacity as a SCS.³

Indeed, the AER has scope to classify leasing out spare capacity in batteries as a service as previously articulated by the AEMC in its above-mentioned rule change, which stated (our emphasis):

*If the DNSP was providing that service to the customer using a storage device connected to its network, then the AER may classify that as a service (depending on whether the AER considered that it was a "distribution service").'*⁴

This indicates that the AEMC contemplated that DNSPs could provide a service where they lease out spare capacity to customers.

We recommend that the AER should recognise Ausgrid's request to classify the facilitation of excess battery capacity as a SCS) as part of the F&A.

¹ AEMC (2017). *Contestability of energy services rule change*. P8.

² AEMC (2017). P2.

³ AER (2022). *Framework and Approach for NSW, ACT, TAS & ACT: Preliminary Position Paper*. P9.

⁴ AEMC (2017). P46.

The AER should allow Ausgrid to facilitate leasing out spare capacity in batteries in the 2024-29 regulatory control period

Ausgrid recommends that from 1 July 2024 the:

- *facilitation of leasing out spare capacity in a platform asset be classified as SCS;*
- *use of the leased spare capacity remains an unregulated service where the regulated asset base treatment and unregulated revenue sharing is dependent on the primary driver of the initial investment set out in **Table 1**.*

In Ausgrid's request for a new F&A, we modelled our proposal on the AER's current SCS classification of 'shared asset facilitation'. This existing SCS classification is appropriate so that electricity distributors can maximise the value of network assets to SCS customers without needing to implement onerous co-location and information sharing requirements.

Our proposal applies the same regulatory framework but for the facilitation of leasing out share capacity in a community battery. This is consistent with the treatment of an existing service and aligns to clause 6.2.1(c) of the NER which requires the AER to consider 'the desirability of consistency in the form of regulation for similar services'.

Ausgrid recommends that the AER investigate implementing dedicated cost allocation and revenue sharing models for new and emerging assets e.g. community batteries

We consider the arrangements for shared asset facilitation to be robust and in the long term interests of customers. The shared asset facilitation arrangements provide for a stable regulatory framework for achieving positive outcomes for customers (maximising the utilisation of existing assets) without the need for ad hoc exemptions.

However, we note the AER's view that the current Shared Asset Guideline only applies to existing, not new, network assets. As such, we recommend that the AER should create a specific shared asset facilitation framework for new and emerging assets such as community batteries. This framework should reflect an appropriate cost allocation and revenue sharing arrangement.

This is more desirable in the long-term than a static framework that relies solely on an onerous and uncertain waiver process. Revenue sharing can be achieved via multiple means, including amendments to the control mechanism to allow for within-period revenue adjustments. To facilitate transparency on cost allocation and revenue sharing, the AER could also implement reporting requirements in the annual RINs. We note that the AER is currently conducting a review of regulatory reporting. A clear regulatory framework for investment in community batteries will support market partners contracting for spare capacity in community batteries. This is currently a challenge experienced by DNSPs with the current waiver process due to the lack of regulatory certainty.

We propose three cost allocation and revenue sharing models depending on the primary investment driver at **Diagram 1** and **Table 1**. This could give stakeholders the comfort and transparency needed while providing for a pathway for DNSP-led community batteries where there is an 1) innovation; 2) government policy objective; or 3) network need. Ausgrid acknowledges that there are many permutations to these models.

Diagram 1: Decision tree for battery cost allocation and revenue sharing models

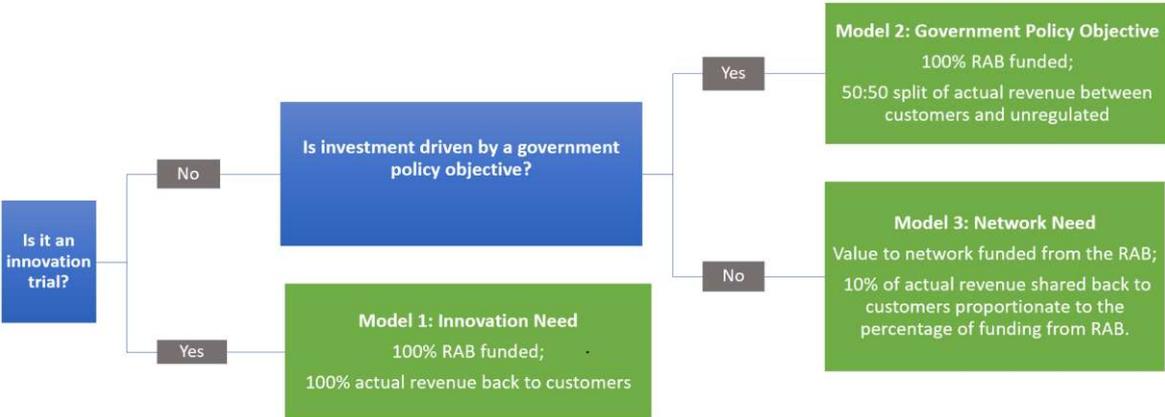


Table 1: Ausgrid proposed framework for RAB and unregulated revenue apportionment for community battery investments

<p>Primary investment driver for model</p>	<p>Preliminary assessment</p> <p>Note, under all models:</p> <ol style="list-style-type: none"> Revenue can be shared via multiple regulatory mechanisms e.g. adjustment to the control mechanism. Transparency should be supported by a new annual RIN reporting requirement.
<p>Model 1: Innovation</p> <p>Cost allocation: 100% of the capital costs allocated to the RAB</p> <p>Revenue: 100% actual revenue back to customers</p>	<ul style="list-style-type: none"> Simple – 100% of battery capital cost goes into the RAB. Customers bear entire cost risk but receive all the unregulated revenue. DNSPs incentivised to drive commercial outcomes (maximise unregulated revenue) to help them identify revenue maximising options in non-trial settings. Potentially limit to batteries of <1MW capacity if there is a concern about DNSPs oversizing the battery.
<p>Model 2: Government Policy Objective</p> <p>Cost allocation: 100% of the capital costs allocated to the RAB</p> <p>Revenue: 50:50 revenue share between customers and unregulated</p>	<ul style="list-style-type: none"> Simple – 100% of battery capital cost goes into the RAB. Customers bear entire cost risk under this model noting government direction, and revenue is shared equally with DNSPs to incentivise revenue maximisation that also benefits customers. Supports and environment where there is a government policy objective driving a short-term increase in the of number of community batteries (e.g. REZs).
<p>Model 3: Network Need</p> <p>Cost allocation: Value to network allocated to RAB</p> <p>Revenue: 10% of actual revenue shared proportionate to the percentage of funding from the RAB vs. unregulated source.</p>	<ul style="list-style-type: none"> Customers are always better off as they share in the revenue benefits without taking funding risks beyond the network need. 10% of the revenue earned goes back to the customers. This would not usually occur with a BAU new investment. Consistent with the AER’s approach to revenue sharing under the Shared Asset Guideline of 10% More unregulated revenue opportunity for the business due to the risk being shifted onto the unregulated business. A sustainable model for when community batteries become economically viable and all revenue streams can be accessed (in partnership with a market partner). Simple model for market partners (e.g. retailers) to understand overall and simple from a co-investment sharing (e.g. unregulated funding can come from different sources). More risk shifted onto DNSP due to the higher upfront unregulated fund contributions required.

Attachment B: Ausgrid response for classifying export services

We recommend that Ausgrid's F&A treat export services, in the majority of circumstances, as a SCS. The exception would be in situations where a connection applicant requires an export service that requires assets to be designed and constructed to above and beyond the distributor's standards and policies.

Table 2 outlines this approach mirrors the existing treatment of consumption services, where if a connection applicant's proposed load cannot be met by the shared network it would require network enlargement and may trigger ACS charges.

Table 2: Alignment of current consumption connection and proposed export services classification

Consumption connection	Export services	Current (connections)/ Proposed (export services) classification
1. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension.	1. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension.	SCS
2. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a distributor.	2. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a distributor.	Distributor contribution classified as a SCS while the customer funded component of the service is not classified.
3. Any shared network enlargement/enhancement undertaken by a customer.	3. Any shared network enlargement/enhancement undertaken by a customer.	Not classified
4. Any shared network enlargement/enhancement undertaken by a distributor where a customer requests that assets are designed and constructed to an increased standard (beyond that required by the distributor's standards and policies).	4. Any shared network enlargement/enhancement undertaken by a distributor where a customer requests that connection application requires an export service designed and constructed to an increased standard (beyond that required by the distributor's standards and policies).	Alternative control service