

Ausgrid Submission

AER distribution ring-fencing guideline review

July 2021



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Attn: Kathie Standen
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Australian Energy Regulator
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Dear Ms Standen,

Ausgrid welcomes the opportunity to provide this submission in response to the Australian Energy Regulator's (**AER**) Draft Ring-fencing Guideline for Electricity Distribution (Version 3) (the **Draft Guideline**). At the outset I would like to acknowledge the extremely helpful discussions we have had with Ausgrid's Customer Consultative Committee (**CCC**), Network Innovation Advisory Committee (**NIAC**) and AER staff since the release of the Draft Guideline. The understanding and insights we have garnered have shaped the development of this submission.

Our customers have told us the shared electricity grid needs to become a platform to facilitate decarbonisation of the energy system and unlock additional value from their distributed energy resources. Community-scale batteries offer a significant opportunity to deliver our customer's aspirations for a lower cost, lower carbon future that is more accessible to all.

The community battery value proposition

Currently, customers who own rooftop solar PV systems have an option of either continuing to pay their electricity bill or investing in an energy storage system. The economic case for a home battery system is mainly dependent on the financial benefit associated with capturing the energy arbitrage value (difference between the feed-in-tariff and time-of-use tariff), plus any other additional market payments.

A shared community-scale battery enables multiple community members to access storage capacity at different times when they need it. Since these times don't overlap perfectly, the diversity in their energy profiles results in a smaller battery to meet most customers' storage needs. Community-scale batteries are also able to provide value and benefits to a range of stakeholders. We refer to this concept as "value-stacking". Deriving value from network, customer, and market use cases (summarised below) will underpin the economic case for community-scale batteries going forward.

Network	Alternative to network upgrade to relieve a constraint
Customer	Local customer energy storage service
Market	Dispatch for NEM energy and/or ancillary markets



The network service is a “distribution service”, so can be provided by networks. However, a network is not allowed (without a waiver) to:

- provide either the customer or market services, which are deemed to be contestable services because they are not classified in a network’s distribution determination; nor
- lease excess capacity in a battery that would also be providing the network service, because this “leasing” service is not classified, and is therefore also a contestable service. This is despite the network not utilising the battery to *itself* provide the customer or market services (simply leasing capacity to a third party to provide those services).

It is this “leasing of excess battery capacity” service which we believe should not require a ring-fencing waiver.

A waiver framework is not the appropriate next step for the contestable leasing service

The community-scale battery service market is nascent, characterised mainly by small-scale trials (including our own) in a handful of locations across Australia. Technological, commercial and product development opportunities are being explored to understand how best to deliver battery services into the future.

The next iteration of the ring-fencing framework needs to be carefully designed to minimise the potential for unintentionally encumbering the development of these new services. We believe an incremental approach to ring-fencing would facilitate innovation and allow for regulatory framework adjustments as required.

In our view, the Draft Guideline places a disproportionate regulatory burden on distribution networks that are currently seeking to understand how the shared network and its unique position can best contribute to managing some of the complexities of the energy system transition. The Explanatory Statement indicates that waiver applications to provide contestable services involving batteries would need to address 14 separate matters to the satisfaction of the AER (in addition to any other matters the AER considers relevant). Further, waiver assessment timeframes are set at the sole discretion of the AER. This framework would drive substantial risk into investment decisions that would discourage distributors utilising batteries as flexible network assets that provide superior optionality to traditional network investments.

One consequence of this framework is that a community-scale battery service vacuum could be created that may ultimately lead to inefficient and fragmented service offerings akin to the current state of metering competition in certain jurisdictions.

Alternatively, issues around land access, planning approvals, and geographic diversity of retail customers could result in the battery market becoming quickly dominated by large retailers. This would consolidate and grow the market share of large retailers on the feeders where they are offering a community storage solution. This would damage retail competition and would be extremely challenging to unwind.

We do not believe that these outcomes are in the long-term interests of the communities we serve. Limiting the opportunity for distributor-led batteries would damage the development of an effective response to the accelerating transition and the existing system of retail market contestability.

In our view distributors are best-placed to spur the development of community-based energy solutions, particularly in partnerships with third parties such as local councils or community groups. Networks can build and maintain assets in the public domain. This will speed-up the rollout of storage needed to maintain stability on an increasingly dynamic energy system.

We are specialists at designing and maintaining high risk electrical assets to continuously operate in a safe state with no risk to the public. We can safely explore new technologies and how they interact with the grid and provide new services to customers. We have the highly skilled workforce in place to do this – they are already there looking after the other electrical assets we maintain in the public domain.

Councils and the community are driving us to explore community-scale batteries. We have existing capabilities across our service areas to provide communities with safe and reliable access to these shared assets. We are positioned to foster the development of this fledgling market in a way that supports retail competition and technological innovation.

A pragmatic and balanced middle-ground option for the contestable leasing service

Taking into account the Draft Guideline, the feedback from our CCC and NIAC and subsequent discussions with AER staff, we propose a pragmatic alternative that balances various competing factors that need to be considered. This alternative builds on our previous joint submission with PIAC and Simply Energy. We propose an exemption framework for the “leasing of spare capacity” service, with the following conditions:

- applies to energy storage devices up to 1MWh (waiver required above this size) – effectively limiting the exemption to community-scale systems that are unlikely to result in a build-scale that would crowd-out competition for market services (e.g. FCAS and wholesale arbitrage);
- the AER can vary or revoke the DNSP’s exemption to provide contestable services using an energy storage device up to this size with at least 90 business days’ notice (existing installations would be grand-fathered);
- DNSPs must publish the information set out in **Attachment 1**, which takes into account the waiver assessment guidance in the Draft Guideline’s Explanatory Statement (noting that the register should be included within the scope of the annual ring-fencing audit) as soon as reasonably practicable for each installation.

We believe an incremental approach to ring-fencing controls at this time would better facilitate innovation and allow for more targeted regulatory framework adjustments if/when needed. The proposed framework gives the AER significant oversight and powers in relation to our future role while not unduly constraining efficient decision-making by networks. The framework also reflects the incentive on DNSPs to ensure that they do not act in a manner which may lead the AER to further restrict their ability to deliver these services.

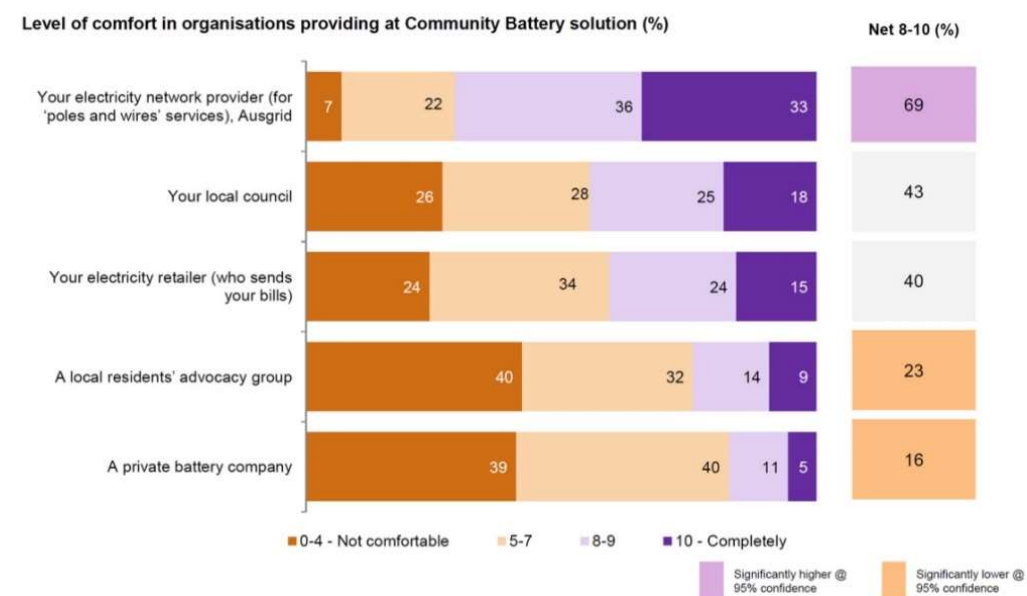
The voice of customers, councils, and smaller retailers

A feature of good engagement is that those that are directly impacted by a decision are consulted. In our view, consultation papers and a public forum (largely attended by engaged stakeholders who also make written submissions), while important, need to be supplemented by more direct engagement with key stakeholders and customers. We encourage the AER to actively see out a broader range of viewpoints before developing its final guideline.

Importantly, we are not aware of any customer voices that have indicated that distributors should not be involved in the delivery of community-scale batteries at this time. Our own research supports this. In July 2020 we commissioned Newgate Research to help us understand customer preferences for community-scale battery services. The results (summarised in the figure below) indicate that customers have confidence in distributors being a provider of community-scale batteries. We would be very happy to discuss this, and other research, further with the AER.

COMFORT WITH POTENTIAL BATTERY PROVIDERS

Comfort is greatest with Ausgrid providing a Community Battery, especially vs a private battery company or residents' advocacy group



NEWGATE RESEARCH Q40. How comfortable would you feel with each of the following organisations providing a Community Battery solution? Using a scale from 0 to 10 where 0 means you would be not at all comfortable and 10 means you would be completely comfortable with such an organisation providing this service. Base: All participants (n=956). 64

Thus far customer advocate input has been extremely limited, likely due to a lack of adequate resourcing to support participation. Those customer advocates that have expressed a view have recommended caution before limiting the role of distributors going forward – described by PIAC as a

potentially “over-zealous” approach.

We believe the AER should actively seek out the views of customers and customer representatives before making such a critical decision that has potential for significant unintended consequences.

We are also aware of research by the Australian National University¹ that suggests customers would prefer local councils to deliver community storage as a not-for-profit service. This was raised in the AER’s public forum as supporting the view that distributor-led community batteries may not supported by customers. We make three observations in response:

- this research did not conclude that the community had an issue with distributors *owning* batteries, where those batteries might then be used by a council to provide a community storage service;
- we are not aware of a council that wants to own community-scale batteries – they generally are not equipped to manage or operate such installations including 24/7 fault and emergency support service (they would much prefer to partner with their local distribution network to play this role);
- the research notes that many participants “raised the point that regulation of community batteries needs to be adaptable and flexible” – we agree with this view.

We encourage the AER to engage directly with councils to understand their perspectives in further detail.

Stand-Alone Power Systems (SAPS)

Ausgrid supports the generation revenue cap model set out in the Draft Guideline, however we believe that one of the input variables (forecasts number of SAPS) needs to be revised.

Forecasting the rate of SAPS deployment is challenging at this stage in the market’s development. It is important to ensure that the framework is designed to support efficient SAPS deployment and is based on realistic deployment expectations during early stages of market development.

The forecast of 12 units in Ausgrid area includes the ENA’s previous submission reflected our plans for the next 12-18 months (only) to trial SAPS as guided by our NIAC. It did not reflect a longer-term forecast

We support the ENA submission’s proposed threshold of 0.02% for Category 3 SAPS which includes Ausgrid. We believe this balances the need for a SAPS number to set the initial generation revenue cap, but also benefit of flexibility considering the forecasting challenge.

As part of the development of the SAPS trial, we recently completed a detailed assessment of the cost effectiveness of SAPS for 3,200 individual customer sites located on 18 rural feeders. This analysis utilised an assessment of individual customer energy use, maintenance, risk and outage data, CSIRO’s Gencost estimates and SAPS design from the Industry-standard Homer software. Results of the analysis indicate that up to 175-250 SAPS installations by 2030 are viable in our network area – significantly more than 12. If the AER were minded to adopt the 75% threshold for

¹ ANU, *Implementing community-scale batteries*, December 2020.

distributed-led SAPs, this would be approximately 131-187 SAPS, which is broadly consistent with the ENA's proposed threshold of 0.02% (or 157 SAPS for Ausgrid).

Other amendments

Ausgrid does not have any comments to raise with the other amendments proposed to the Guideline.

Should the AER have any questions in relation to this submission, please contact Alex McPherson, Head of Regulation on 02 9269 4357 or alex.mcpherson@ausgrid.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'RAL', with a long horizontal stroke extending to the right.

Rob Amphlett Lewis

Chief Customer Officer

Attachment 1 – Battery register

Under our proposal, a battery register would need to address the following:

1. The process that was followed to attempt to procure inputs to the distribution service from a third party;
2. What other alternatives, besides the battery, might be available to the DNSP in order to meet the distribution service need for the battery;
3. The reasons why the DNSP has not procured those other alternative services, including any requests from the local council or community for the supply of a community-scale battery, and the process (if any) that the DNSP has followed in attempting to procure those alternatives;
4. The need for / benefits of the battery of the size proposed to be installed;
5. Whether the DNSP proposes to supply excess capacity of a battery to a third party – and whether or not that third party is an affiliate of the DNSP;
6. What capacity is required to fulfil the network service and when that capacity is likely to be required and what the nature of excess capacity is likely to be (e.g. a constant volume);
7. Whether or not the contractual arrangements under which that capacity is supplied gives the DNSP an interest in the commercial performance of that battery;
8. Whether the arrangement between the DNSP and the third-party is at arms-length and on terms and conditions that are available to other providers of batteries;
9. Whether there is sufficient monitoring and reporting requirements for the AER or other third-parties to verify ex-post that the DNSP is not favouring or giving preference to the battery it owns in its operational or investment decisions;
10. If relevant, what information, results, and outcomes will be shared from a trial and with whom.
11. How the costs of the battery are allocated, or will be allocated, how this allocation might change over time and the expected impacted on the regulatory asset base;
12. How DNSPs plan to share such information publicly (e.g. cost allocation) and what commitments they are willing to make in this respect.

A scenic landscape at sunset. A paved road curves through a wooded area. Large trees are silhouetted against the bright orange and yellow sky. A utility pole with power lines stands on the right side of the road. The overall mood is peaceful and serene.

Thank you

