

Contact Officer: Jim Wellsmore
Contact Phone: [REDACTED]



25 March 2024

Patrick Duffy
Manager Regulatory Transformation & Policy
Endeavour Energy

Sent by email to: [REDACTED]

Dear Mr Duffy

Re: Endeavour ring-fencing waiver application for energy storage devices

Thank you for your email dated 26 February 2024 and the attached application for a waiver from the obligations in clause 3.1(d)(i) of the Ring-fencing Guideline for Electricity Distribution (the Guideline) with respect to seven battery energy storage systems.

Endeavour's proposal

We understand that Endeavour intends to install seven batteries at various locations where there is a high forecast for increased local distributed energy resource (DER) penetration. Your application mentions that this is part of a trial for which we previously granted a waiver for the installation of three battery energy storage systems. That waiver was granted on 13 February 2023. The current waiver application is to enable Endeavour Energy to lease part of the capacity of these seven additional batteries to a third-party for participation in wholesale energy arbitrage, ancillary services, and other emerging markets. We note that the application notifies that the third-party was engaged following a competitive commercial process in August 2021 and requests that the name of this third-party provider remain confidential.

AER assessment and decision

The Guideline specifies that in assessing a waiver application, the AER will have regard to the National Electricity Objective (NEO); the potential for cross-subsidisation and discrimination; and the benefit, or likely benefit, to consumers from a DNSP complying with the obligation, relative to the cost to consumers from a DNSP complying with the obligation.

We note that these batteries are intended to inform a trial which aims to support innovation, market learnings and accrual of benefits such as deferred augmentation, reduced export curtailment and reducing the overall cost of power to customers. This appears to be in-line with the NEO.

The application provides detailed cost allocation table for all seven batteries with up to 51% of capex for these batteries being allocated to the RAB with transparency around ongoing maintenance costs. Endeavour Energy has stated that this means there is unlikely to be any cross-subsidisation owing to clarity around network benefits and non-network benefits. However, the AER may monitor the use of the battery for network services and expects that data on battery use will inform future cost allocation approaches to energy storage devices.

We have decided to grant a waiver from clause 3.1(d)(i) of the Guideline to allow Endeavour to install, own, and operate these seven batteries. The waiver is provided until 31 December 2037 (the expected life of these seven batteries). The waiver is granted on the basis that the assets and associated costs follow the cost allocation methodology projected in the application and subject to the conditions below.

Conditions

The following conditions apply with this waiver approval:

- Endeavour Energy to provide the AER with information on the contractual relationship between Endeavour Energy and its retail partner. This information includes the contractual terms, conditions and payments. This information should be provided to [AERringfencing@aer.gov.au](mailto:AERringfencing@ aer.gov.au) within 20 business days of the contract being finalised.

Where there are changes in this contractual arrangement, the AER should be notified within 20 business days. We acknowledge the commercially sensitive nature of this information and will treat this information, accordingly, noting our policies regarding information privacy and disclosure of information.

- Ex-post public sharing of information about the batteries (e.g., location(s), size, intended purposes and uses, and a key contact for external stakeholders if they wish to discuss the project further) and any useful learnings that will support the battery market.
- As part of Endeavour Energy's independently audited annual ring-fencing compliance reports required under clause 6.2 of the Guideline:
 - The total quantified benefit derived from the deployment of the battery energy storage systems from all services over the most recent financial year.
 - The total quantified benefit derived from the deployment of the battery energy storage systems from direct control services over the most recent financial year.
 - The total quantified benefit derived from the deployment of the battery energy storage systems from other distribution services and other services over the most recent financial year; and
 - A comparison of uses (volume and frequency) of the battery that confirms the usage by Endeavour Energy and by its retail partner, including the initial proposed allocation as a baseline against which actual usage of the battery energy storage systems can be compared.

In addition, staff may request that Endeavour Energy makes available to the AER, information on the performance of the batteries participating in this trial, such as the split between network and market benefits, when this is sought by the AER staff at any time during the tenure of the waiver.

If you would like to discuss this matter further, or have any questions, please contact Jim Wellsmore, A/g Director New Markets & Innovation by email at [AERringfencing@aer.gov.au](mailto:AERringfencing@ aer.gov.au) or on [REDACTED] in the first instance.

Yours sincerely

[REDACTED]

Jarrold Ball
AER Board Member

Sent by email on: 25.03.2024