

Contact Officer: Jim Wellsmore
Contact Phone: [REDACTED]



27 March 2024

Trudy Fraser
A/Executive General Manager Regulation
Energy Queensland

Sent by email to: [REDACTED]

Dear Ms Fraser

Re: Ergon Energy ring-fencing waiver application for energy storage device

Thank you for your email dated 26 February 2024 and the attached application from Ergon Energy Network for a waiver from the obligations in clause 3.1 of the Ring-fencing Guideline for Electricity Distribution (the Guideline) in respect of one battery energy storage system (BESS).

Ergon's proposal

We understand that Ergon intends to acquire and operate a BESS to provide network support services in an area where there is high (and forecasted to increase) local CER penetration. We additionally understand that Ergon intends to lease a portion of the battery's capacity to a confidential retailer. We note that a competitive EOI process was employed, and that a confidential third party was successfully engaged in February 2024. The waiver application notes that the BESS unit was commissioned in 2020 by Yurika and has now been transferred to Ergon Energy to consolidate the battery and other units under its Local Battery Plan.

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 likely benefit, to consumers relative to the costs from the DNSP complying with the ring-fencing obligation.

We acknowledge that BESS units are considered important for supporting renewable energy led future energy systems. The local battery plan is likely to help Ergon to create alternative solutions to address minimum demand events while promoting upstream benefits such as frequency response, offsetting transmission and distribution investments. When considering battery deployment, a combination of benefits is necessary to ensuring the long-term interests of consumers of electricity. Considering these, the acquisition and operation of the battery appears to be in line with both the NEO and the NERO.

In terms of costs, Ergon Energy's application provides that the battery has been transferred from Yurika to Ergon Energy as an unregulated asset and will be excluded from the Ergon's Regulatory Asset Base (RAB). It is proposed that the ongoing maintenance of battery assets will be excluded from the regulatory operating costs which makes the potential for cross-subsidisation unlikely. We note that Ergon Energy has not provided an estimated allocation of the battery capacity that will be used for network services as opposed to market services. This being the case, we will monitor the use of the battery for network services and expect that data on battery usage will be shared to inform future cost allocation approaches to energy storage devices.

We have decided to grant a waiver from clause 3.1 of the Guideline to allow Ergon Energy to operate the battery. The waiver is provided until 30 June 2035 (the expected lifespan of the battery). This 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:

- Ex-post public sharing of information about the battery unit (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 Ergon 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 from all services over the most recent financial year.
 - The total quantified benefit derived from the deployment of the battery from direct control services over the most recent financial year.
 - The total quantified benefit derived from the deployment of the battery 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 Ergon Energy and by its contracted third party, including the initial proposed allocation as a baseline against which the actual usage of the battery can be compared.

In addition, staff may request that Ergon 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 or on [REDACTED] in the first instance.

Yours sincerely



Jarrold Ball
AER Board Member

Sent by email on: 27.03.2024

