

Contact Officer: Laura Considine
Contact Phone: (02) 6243 4966



19 November 2024

Sonja Lekovic
Regulatory Policy Manager
AusNet Electricity Services Pty Ltd

Sent by email to: [REDACTED]

Dear Ms Lekovic

Re: AusNet ring-fencing waiver application for pole-top energy storage devices

Thank you for your letter dated 18 October 2024 and the attached application from AusNet for a waiver from the obligations in clause 3.1, 4.2.1 and 4.2.2 of the Ring-fencing Guideline for Electricity Distribution (the Guideline) in respect of 10 pole-top battery energy storage systems.

AusNet's proposal

We understand that AusNet intends to install ten network owned pole-top batteries at ten locations selected based on highest network benefits opportunities via criteria of high solar penetration and reverse flow, load capacity constraint and number of customers per LV network. AusNet is seeking the relevant waiver to enable it to lease part of the capacity of these batteries to a third-party ([REDACTED]) for participation in wholesale market arbitrage, FCAS services and storage services for customers. We note that AusNet has advised the third-party was engaged following a competitive commercial process.

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 a DNSP of complying with that obligation.

We note the project is trialling the value customers could receive from a DNSP sharing network owned batteries with a third-party contestable service provider and extract the full value stack from these batteries including deferred network augmentation, network reliability improvement, reduced customer export curtailment and emissions reductions. This would be in-line with the NEO.

The application provides a detailed cost allocation model for the ten pole-top batteries, with up to [REDACTED] of project capex allocated to the regulated asset base (RAB) over 10 years. This estimate follows agreement from AusNet on our assessment to limit the battery lifespan, and therefore the network benefits, to 10 years. Cross-subsidisation risks are adequately addressed through AusNet's proposed cost allocation methodology, whereby the value of the proposed RAB represents a proportion equal to the value of benefit network customers will receive. The network benefits are primarily made up of deferred network augmentation costs of replacing new pole-mounted transformers and reconfiguration of the low voltage network. The remaining cost of the project will be recovered from the Victorian Government NBI Program, DMIA battery funding, and third-party lease revenue. 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.

The Guideline has a number of obligations to prevent discriminatory behaviour in favour of a particular entity (namely those obligations are set out in clauses 4.1 and 4.3). These obligations cannot be waived. To ensure ongoing compliance with this clause, as a condition of this waiver, AusNet is required to share with the AER information on the contractual relationship between itself and its retail partner. This will provide ongoing comfort that AusNet is complying with its obligations as set out in clause 4.

We have decided to grant a waiver from clause 3.1, 4.2.1 and 4.2.2 of the Guideline to allow AusNet to install, own, and operate ten pole-top batteries. The waiver is provided until 31 December 2035. The waiver is granted on the basis that the assets and associated costs across the agreed 10-year battery lifespan follow the cost allocation methodology projected in the application and subject to the conditions below.

Conditions

The following conditions apply with this waiver approval:

- Providing the AER with information on the contractual relationship between AusNet and its retail partner. This information includes the contractual terms, conditions and payments. This information should be provided to 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 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.
- Provide on a calendar year basis a comparison of the uses (volume and frequency) of the battery that confirms and differentiates between AusNet's network usage and spare capacity leased to its contracted third party, and an explanation of any differences between forecast and actual usage. The independent assessor, as part of the annual ringfencing compliance assessment required under clause 6.2 of the Guideline, is to confirm the comparison is accurate. This includes:
 - The total quantified benefit derived from the deployment of the battery from all services.
 - The total quantified benefit derived from the deployment of the battery from direct control services.
 - The total quantified benefit derived from the deployment of the battery from other distribution services and other services; and
 - A comparison of uses (volume and frequency) of the battery that confirms the usage by AusNet 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 AusNet 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 Laura Considine, Director New Markets & Innovation by email at [AERringfencing@aer.gov.au](mailto:AERringfencing@ aer.gov.au) or on (02) 6243 4966 in the first instance.

Yours sincerely



Jarrold Ball
AER Board Member

Sent by email on: 19 November 2024