

22 April 2021

Mr. Ralph Griffiths  
Executive Director | Energy Strategy Division  
Department of Environment, Land, Water and Planning

*Submitted online via Engage Victoria*

Dear Mr. Griffiths,

#### Victorian Neighbourhood Battery Initiative Consultation Paper

Energy Networks Australia appreciates the opportunity to provide a response to the Victorian Department of Environment, Water, Land and Planning's (DELWP) [Victorian Neighbourhood Battery Initiative Consultation Paper](#).

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Neighbourhood batteries, also referred to as community or grid-scale batteries, have an important role to play in the transitioning electricity system, bringing benefits to communities, energy users and electricity networks, and we welcome DELWP's consideration of these issues.

### The energy transformation

Australia's energy system is undergoing a significant transition, moving away from large coal and gas centralised generation to smaller scale dispersed generation that is increasingly renewable generation.

This transformation has fundamentally changed the role of the distribution network. Traditionally, distribution networks supplied energy downstream to end-use customers, however it now increasingly provides two-way flows as customers both consume and export electricity.

The challenges associated with the energy transformation are being addressed by a number of processes at both jurisdictional and national levels, and ENA strongly supports DELWP's Neighbourhood Battery Initiative, which seeks to unlock the benefits of new energy storage models for communities, energy users and the electricity grid.<sup>1</sup>

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<sup>1</sup> Victorian Department of Environment, Water, Land and Planning, [Victorian Neighbourhood Battery Initiative Consultation Paper](#), March 2021, page 4.

## Current regulatory framework

While distribution network service providers (**DNSPs**) are able to use neighbourhood batteries to provide distribution services, the Australian Energy Regulator's (**AER**) existing service classifications and ring-fencing framework currently limit networks' ability to provide certain battery storage services to customers.

The ESB's Health of the National Electricity Market Report observes that:

*At present the **ownership of batteries within the network is constrained and this may not be optimal nor fit with the role of the network** if it is to be a platform to provide services.*<sup>2</sup>

Neighbourhood batteries represent an increasingly efficient option to address local network issues such as peak/minimum demand, and voltage regulation to enable additional hosting of distributed generation. However, without going through the AER's existing ring-fencing waiver process, which imposes costs, uncertainty of investment recovery and delays delivering benefits to consumers, DNSPs are precluded from increasing the viability of these services by, for example, leasing out spare capacity or offering customers access to a shared storage service. This is commonly referred to as value stacking and allows the same battery storage device to be used for multiple purposes.

Enabling value-stacking of neighbourhood batteries provides the greatest benefits to consumers and reduces the cost to all consumers of DNSPs providing distribution services. In addition, the market for neighbourhood batteries would benefit from DNSP-led initiatives, which would foster the market and provide incentives for third parties to enter.

This view is supported by consumer advocates who state, through the AER's current [Electricity Distribution Ring-fencing Review](#), that:

- » Storage systems will play an important role in the future of the NEM, and regulated networks can help enable and accelerate this transition. In addition to the benefits noted in the Issues Paper, allowing network businesses to provide other services from storage devices can help accelerate roll-out and share benefits across more consumers ([PIAC](#), page 3).
- » In the face of the unprecedented transformation impacting energy consumers and distribution network businesses, regulatory transformation will be critical in providing downward pressure on SAPS and ESD [energy storage device] costs while increasing system efficiencies that benefit all consumers ([Strategen for ECA](#), page 16).

Distributor-led neighbourhood batteries may also support retail contestability in the provision of storage services by offering services to all parties on an equal basis.

## Case studies

**United Energy** is installing 40 new pole-mounted battery energy storage system (BESS) units in the low voltage network as part of a trial to provide network peak demand support (a distribution service). In order to deliver the greatest benefits to consumers and a lower cost outcome for consumers from the

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<sup>2</sup> Energy Security Board, *Volume 1: The ESB Health of the NEM Report 2019*, 24 February 2020, page 39 [emphasis added].

installation of the BESS units, United Energy will partner with a retailer selected under a competitive process. The retailer partner intends to use the BESS units for providing frequency control ancillary services, and energy arbitrage (i.e., a non-distribution service). This is an example of a DNSP indirectly (i.e., through a third party) using a neighbourhood battery to also provide non-distribution services to the benefit of all consumers.

**Jemena and AusNet Services** (in collaboration with ARENA) are undertaking a BESS trial installing a large community size battery in Greenvale to demonstrate how new technologies can enable distribution networks to accommodate increased levels of distributed energy resources and mitigate power quality and stability challenges caused by very high penetration of solar.

**Ausgrid** is currently undertaking a virtual trial of a neighbourhood battery, which provides both a community storage solution for solar customers (non-distribution service) and provides a more cost-efficient alternative to traditional poles and wires investment to address peak demand (distribution service). The first phase of Ausgrid's trial aims to demonstrate how a neighbourhood battery can deliver cost savings for solar customers, while addressing localised network needs. This is an example of a DNSP directly using a neighbourhood battery to also provide non-distribution services to the benefit of all consumers.

## Proposed changes to the regulatory framework

As mentioned above and highlighted in DELWP's Consultation Paper<sup>3</sup>, there are barriers in the current regulatory framework that limit DNSPs' ability to provide certain battery storage services to customers.

Energy Networks Australia is closely engaging in the AER's current Electricity Distribution Ring-fencing Review and advocating for amendments to the framework to ensure that consumers are able to benefit from value stacking.<sup>4</sup>

In particular, we strongly support amendments to the AER's Electricity Distribution Ring-fencing Guideline that enable DNSPs' indirect use of neighbourhood batteries to provide non-distribution services. Energy Networks Australia is also strongly supportive of amendments to the AER's waiver process that streamline the process and decrease regulatory and investment uncertainty.

In the longer term, through the electricity distribution price review processes, we also encourage further consideration of how the AER classifies the services offered by neighbourhood batteries.

The regulatory framework, including how services are classified and how ring-fencing is approached, needs to be able to accommodate neighbourhood batteries where it is in the long-term interests of consumers. With the right regulatory settings in place, distributor-led neighbourhood batteries could access a wide array of benefits and assist in reducing network costs for all consumers, and we encourage close collaboration between policy makers on potential solutions.

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<sup>3</sup> Victorian Department of Environment, Water, Land and Planning, *Victorian Neighbourhood Battery Initiative Consultation Paper*, March 2021, page 6.

<sup>4</sup> Please refer to: Energy Networks Australia, *ENA Response to the AER Issues Paper: Updating the Ring-fencing Guidelines for Stand-Alone Power Systems and Energy Storage Devices*, 18 December 2020.

We once again welcome this consultation and thank DELWP for the opportunity to provide input. If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation, at [lmooon@energynetworks.com.au](mailto:lmooon@energynetworks.com.au).

Regards,



**Andrew Dillon**  
**Chief Executive Officer**