AUSTRALIAN ENERGY COUNCIL

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Economic Regulation Authority
Level 4, Albert Facey House
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Perth WA 6000

Submitted via email by graham.pearson@energycouncil.com.au to publicsubmissions@erawa.com.au

Classification of services provided by batteries owned by Western Power

The Australian Energy Council (the "**AEC**") welcomes the opportunity to make a submission to the Economic Regulation Authority (the "**ERA**") on the *Excluded service determination for services provided by batteries owned by Western Power* consultation paper (the "**Consultation Paper**").

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC makes the following comments in response to the questions raised in the Consultation Paper:

The ERA is seeking stakeholder feedback on its view that the supply of services from batteries is subject to effective competition.

The AEC agrees that the supply of services from batteries is subject to effective competition.

The battery storage market is now well established with sufficient suppliers and potential asset owners to ensure there is a competitive market. Battery storage systems are continuing to be installed across Australia in large numbers, with the Chief Executive of the Clean Energy Council noting that "in the first half of this year alone, 650MW of capacity representing over $400 million in investment was committed".[1] The Australian Energy Market Operator ("**AEMO**") also received a strong response for the 2021 capacity cycle:

> "The Expression of Interest (EOI) window for the 2021 Capacity Cycle closed on 16 August 2021. AEMO received submissions from 7 entities proposing to connect 196 MW of battery capacity to the network, for installation between 1 July 2022 and 1 September 2023."[2]

The significant amount of battery projects being developed or proposed demonstrates that there are competitors active in this market. Western Power could not be considered uniquely positioned to provide battery services and they are not required to fill a gap in the market.

The AEC also considers that there are low barriers to entry, highlighted by the active participation in the battery storage market. In fact, Western Power's ownership of network connected batteries, without any ringfencing or the batteries being classified as an excluded service, would itself create a barrier to entry. This is because the overall changes made to the Electricity Networks Access Code 2004 (the "**Access Code**") will

[1] See Grid-scale batteries on the cusp of rapid roll out after rocky start
[2] See p29, Renewable Energy Integration – SWIS Update

incentivise the network operator to over-invest in battery storage and disincentivise third-parties from competing to provide battery services.

The AEC agrees with the assessment of the Access Code changes from Economic Insights that:

> *"Our interpretation of these features is that the full cost of the batteries would be included in the regulatory asset base if they passed the NFIT (and hence the return of and return on this capital would be recovered from reference services tariffs), and if they were used to also provide noncovered services then Western Power could retain at least 70% of the net incremental revenue (defined above) and more if the materiality threshold of $1 million (for all multi-function assets combined) was not reached."*[3]

Based on this, Western Power would be incentivised to over-invest in network connected battery solutions, as compared to other assets that could provide equivalent network support services, even where network connected batteries may not be the most efficient solution, because it can recover the cost of building the asset plus keep 100% of the revenue up to the materiality threshold.

This scenario will have a chilling impact on competition and create a barrier to entry. Put simply, the expected financial returns that would accrue to Western Power (i.e. recovering the cost of building the asset plus keeping the revenue), as compared to third parties (who do not automatically recover the cost of building the asset and have exposure to full market risk), for the provision of exactly the same asset at exactly the same costs, creates an uneven playing field. Such circumstances are likely to have the effect of crowding out parties who may otherwise have competed for the provision of those services and disincentivise those parties from competing to provide these services.

In conclusion, the AEC considers that there is already strong evidence of effective competition in the supply of battery services, there are low barriers to entry, and not classifying Western Power's batteries as an excluded service would itself create a barrier to entry.

The ERA is seeking stakeholder feedback on its view that the revenue from services provided by, and the cost of a battery, can be easily identified and excluded from Western Power's price control without departing from the Code objective.

The AEC agrees with this statement.

The upfront capital cost and ongoing maintenance costs of a battery can be easily identified. Similarly, revenue earned from services provided by the batteries are readily identifiable through contracts (in the case of leasing a portion of the battery) or bi-lateral contracts (for providing ancillary services to AEMO).

The ERA is seeking stakeholder feedback on its view that storage services provided by batteries owned by Western Power should be an excluded service.

The AEC agrees that storage services provided by batteries owned by Western Power should be classified as an excluded service.

An excluded service approach will reduce Western Power's incentive to over-invest in battery storage, promote competition from third-party providers, enable the industry to develop naturally and facilitate lower costs for network support services. This is consistent with the Access Code objective to promote the efficient investment in, and efficient operation and use of, services of networks for the long-term interests of consumers.

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[3] See page 40, Notes on ERA Issues Paper: Framework and approach for Western Power's fifth access arrangement review

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Conclusion

The AEC appreciates this opportunity to provide feedback on the Consultation Paper and encourages the ERA to consider our above comments.

Please do not hesitate to contact Graham Pearson, Western Australia Policy Manager by email on graham.pearson@energycouncil.com.au or by telephone on 0466 631 776 should you wish to discuss this further.

Yours sincerely,

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