

To Public Submissions at the Economic Regulation Authority (**ERA**)

Subject Excluded service determination for services provided by Western Power batteries (**Consultation paper**)

Date 30 September 2021

Good Afternoon

Thank you for the opportunity to comment on the ERA's Consultation paper and provide a response to the ERA's view that storage services provided by batteries owned by Western Power should be an "excluded service" as determined under the *Electricity Networks Access Code 2004* (**Access Code**). As an overarching comment, AGL Perth Energy supports the ERA's view that the treatment of battery storage as an excluded service under the Access Code is in the long-term interest of consumers. It will promote the contestable market for these services, and in doing so, best meets the Access Code objective to promote efficient investment in, and efficient operation and use of, services of networks.

AGL Perth Energy has previously expressed concerns to the ERA about Western Power being allowed to install batteries to provide system support and these concerns are centred around the following key matters:

- **Battery use:** any batteries installed and owned by Western Power would be restricted to providing network support services (**NSS**). However, this raises a serious risk of reducing competition in this emerging market by crowding out third party providers who can install and operate batteries. Third parties could not only provide NSS to Western Power but other essential system services to give broader support to the wholesale market and provide excess capacity to other parties. This issue is identified in the Consultation paper as it recognises storage systems can provide multiple energy services simultaneously but, without the ability to realise a battery's full value across these multiple streams, a battery may not be commercially viable for the competitive market.
- **Consumption and export pricing:** as any Western Power owned batteries would consume and return electricity during different trading periods when different prices would apply, Western Power would become a player in the wholesale electricity market, which will be exacerbated in a 5-min market, competing against other market participants. This would be in breach of the Wholesale Electricity Market Rules and has the potential to incentivise Western Power to trade the energy stored in the batteries rather than just use them for internal support.

In response to the specific 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

AGL Perth Energy agrees with the ERA's view that there is effective competition within this market. There are several companies, including AGL, who offer battery technology solutions across the

Australian market and specifically within Western Australia. A substantial MW-MWh quantity of installations have now been installed and are operating. This is not an area of special expertise for Western Power, nor does it have inherent skills or capabilities in storage technology which exceed those of third-party storage providers.

Due to the number of grid-scale batteries installed and operating within Australia, or slated to be developed, there are no roadblocks for Western Power's tendering process and it should receive a number of competitive proposals from experienced developers offering reputable technology. For example, further to AGL's Climate Statement¹, AGL is committed to operating 850MW of storage capacity in Australia by 2024, and to this end has committed to grid-scale battery storage projects at Liddell (500MW), at Torrens Island (250MW capacity) and, as recently announced, at Broken Hill (50MW capacity).

We do note, however, that Western Power could be perceived as having a significant commercial advantage in that it owns potentially suitable sites on the land occupied by its electricity substations. This land could, however, be made available to prospective tenderers subject to fully complying with any reasonable safety or similar obligations set by Western Power.

Further, Western Power's inherent knowledge of the state of their system and ability to plan their own developments gives them a head start position compared to any external business. Without an adequate framework for these developments and appropriate ring fencing, a commercial business will not be able to adequately compete.

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

AGL Perth Energy agrees with this statement. The capital and maintenance costs of any batteries are readily identifiable so can be separated out in accounts. Similarly, electricity purchase cost and sales revenue can be readily determined through metering of electricity flows coupled with knowledge of electricity prices. Prices can be determined either by the relevant balancing prices or within a bi-lateral contract if this is the preferred Western Power arrangement.

Revenue should be readily identifiable by Western Power as the value of the services would have been determined as part of any capital justification process.

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

AGL Perth Energy considers that a battery meets the criteria for an excluded service and therefore supports this conclusion.

This issue is considered in Oakley Greenwood's report², Implication of network ownership of grid-scale battery assets on competition in the Wholesale Electricity Market, which after in-depth

¹ <https://www.agl.com.au/about-agl/sustainability/our-approach-to-the-environment>

² https://www.energycouncil.com.au/media/5gul2n4l/ogw-report_wa-competitive-effects-of-network-provision-of-grid-scale-batteries_may2021.pdf

analysis and modelling concluded that Western Power is incentivised to make inefficient investments in network connected battery storage under the New Facilities Investment Test (**NFIT**) in the Access Code which will result in crowding out competition. Further, with no checks on Western Power's ability to justify a battery under the NFIT until an ex-post regulatory review by the ERA, the process set out under the Access Code fails to acknowledge that these opportunities are already lost to the competitive market and cannot be clawed back. This creates an uneven playing field which will ultimately disincentive third party players in the market or for those keen to enter the market.

To ensure any competitive advantage held by Western Power as a monopoly network provider is kept in check, and network service needs are procured in a cost competitive manner, we support the ERA's view that storage solutions should be deemed an excluded service under the Access Code.

Should you have any questions please do not hesitate to contact me at _____ or on _____. This submission may be made public.

Kind regards

Patrick Peake

Senior Manager WA EMR

I am based in the Perth Office and work Tuesday, Wednesday and Thursday