(ACN 154 893 857)

SwitchDin Pty Ltd
Level 1, Building B, 91 Parry Street,
Newcastle NSW 2302

12 January 2023

Clare Savage
Chair
Australian Energy Regulator

Dear Ms Savage,

RE: Australian Energy Regulator assessment for a distribution ring-fencing class waiver for projects funded under the Commonwealth Government's Community Batteries for Household Solar Program

SwitchDin welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) assessment for a distribution ring-fencing class waiver for projects funded under the Commonwealth Government's Community Batteries for Household Solar Program.

SwitchDin is an Australian energy software company that bridges the gap between energy companies, equipment manufacturers and energy end users to integrate and manage energy resources on the grid.

SwitchDin is Australia's leading provider of turnkey solutions for community batteries, which enables fast-track deployment using a standardised approach. Our solutions enable a virtual battery service for consumers and are agnostic to the inverter and battery technologies deployed at the household level. Projects in which SwitchDin has partnered include:

- Ausgrid Community Battery,
- United Energy's pole top battery program,
- Project Symphony community battery enablement, and
- Repurposing of Western Power's community batteries.

SwitchDin offers a universal data and control system for community batteries and virtual power plants (VPPs) that responds to the use cases of the project. Our platform can enable network support, market participation, aggregation, behind the meter orchestration, orchestration within embedded networks, optimisation of generation and consumption for operation within dynamic operating envelopes, optimisation for cost reflective tariffs and many other applications. Our VPP platform is used by the major electricity retailers active in this area, including Origin Energy, Simply Energy, Synergy, Jacana and others.

We are agnostic to the size and type of consumer energy resources (CER). A single platform can be used for both the customer and community battery offerings which provides a means to scale VPPs and deliver greater benefits to CER as they can be utilised to deliver value optimised alongside the community battery.

We welcome the AER's consideration of the accounting treatment of community batteries in the context of the Regulatory Asset Base. We see this as necessary, but not sufficient, to address the issues arising from the proposed class waiver.

In addition to the accounting issues identified by the AER, SwitchDin recommends the terms and conditions for the proposed class waiver should address the issues of:

- information asymmetry,
- the absence of a framework for contracting for network services, and
- competition in retail services from community batteries.

These issues are elaborated upon in our submission. Thank you for the opportunity to respond to these important issues. I remain available for further discussions and inputs.

Best regards,

< signed hard copy provided>

Darren Gladman
Head of Policy and Regulatory Affairs

Key Recommendations

1. The terms and conditions of the proposed class waiver should address the information asymmetry risk by requiring distribution network service providers (DNSPs) who choose to apply for the class waiver to publish:
    - A list of its prospective or preferred locations for community batteries,
    - Sufficient historical data to assess the feasibility of community batteries at the prospective sites, and
    - Network forecasts (and the data used to derive them) for the prospective sites.
2. The waiver process should require the DNSP to publish its preferred locations for a community battery and the historic data and network forecasts on which its plan is based. There should be an opportunity for third parties to establish a community battery project using the 'DNSP as customer' business model for the network services of the community battery. If, after a sufficient period, no expressions of interest are received from community organisations or other third parties, then the DNSP should be allowed to lead the project, receive Commonwealth Government funding and lease the unused battery capacity using the 'DNSP as owner' business model of a community battery.

3. The AER should consider whether and how the regulatory framework should enable monetising of network benefits and standardising the contracting for network services to enable viable alternatives to the 'DNSP as owner' business model for community batteries.

4. The AER should consider whether and how to address the risk of companies monopolising community battery services if there is one community battery on a feeder and the DNSP leases the unused battery capacity to a single electricity retailer.

Policy context

The Commonwealth Government's Community Batteries for Solar Program and the AER's proposed class waiver raise issues regarding the overarching policy framework. We understand that these issues are beyond the scope of this AER ring-fencing waiver.

A key policy question is whether Australian Governments have a preference between the 'DNSP as owner' and 'DNSP as customer' models for community batteries. If there is a preference to move toward 'DNSP as customer' in the longer term, Australian Governments should outline the proposed pathway for moving from the 'DNSP as owner' model to the 'DNSP as customer' model of community battery.

Information asymmetry

Information asymmetry is a key challenge to competitive provision of community batteries and the services they can provide. This is an issue that can, and should, be addressed by the AER in the terms and conditions of the proposed class waiver.

The biggest information asymmetry challenge is access to network information. DNSPs have a monopoly advantage over third parties and communities because only the DNSPs have access to the information needed to plan a community battery project. There is a risk that DNSPs might not have incentives to provide the information needed for community battery projects by third parties if they can receive funding for a DNSP-led project and lease the unused capacity. We agree with the AER's observation[1] that:

> *"DNSPs have an insight into the best location for batteries, in terms of knowing the constraints within the network. A battery located in a constrained part of the network can offer more value to the network. Therefore it would be highly beneficial if DNSPs publish all relevant data and forecasts for opportunities."*

The terms and conditions of the proposed class waiver should address the information asymmetry risk by requiring DNSPs who choose to apply for the class waiver to publish:

- A list of its prospective or preferred locations for community batteries,
- Sufficient historical data to assess the feasibility of community batteries at the prospective sites, and
- Network forecasts (and the data used to derive them) for the prospective sites.

Ideally, the process would involve the DNSP advertising its preferred locations for a community battery and making available the historic data and network forecasts on which its plan is based. There would be an opportunity for third parties to establish a community battery project using the 'DNSP as customer' business model for the network services of the community battery. If, after a sufficient period, no expressions of interest are received from community organisations or other third parties, then the DNSP would be able to lead the project, receive Commonwealth Government funding and lease the unused battery capacity using the 'DNSP as owner' business model of a community battery. In the longer term, the Distribution Annual Planning Reports (DAPRs) would ideally be sufficiently detailed to enable planning for a community battery. However, that is not currently the case and it would initially make sense to require the more detailed level of data to be published for areas already identified by DNSPs as suitable for a community battery.

[1] https://www.aer.gov.au/system/files/AER%20-%20Ring-fencing%20Guideline%20Explanatory%20Statement%20%28Electricity%20distribution%29%20Version%203%20-%20November%202021.pdf, p.33

The absence of a framework for contracting for network services

Community batteries can provide network benefits such as avoided costs of augmentation. There is no framework for monetising these network benefits for community battery projects, other than those led by DNSPs.

Network services are a key component of the 'value stack' of a community battery. A key risk to the business model for a community battery is the possibility that a DNSP will change its plans for network augmentation, reducing the revenue available from network services. The absence of a pricing and contracting framework for network services will be a barrier to competition in network service provision.

A framework for monetising network benefits and contracting network services would enable alternatives to the 'DNSP as owner' business model.

Competition in retail services from community batteries

There is only likely to be one community battery per feeder, at least initially. If all of the unused capacity of a community battery is leased to a single electricity retailer, that retailer could acquire a monopoly on community battery services. The AER should consider whether this is a problem and, if so, whether it should be addressed through the terms and conditions of the class waiver. In this case, the benefits of forcing a competitive retail solution need to be weighed against the risk that the community battery business model is rendered unviable.