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Submitted via website: www.engage.vic.gov.au

23 April 2021

Victorian Neighbourhood Battery Initiative Consultation, March 2021

AGL Energy (**AGL**) welcomes the opportunity to provide feedback on the Victorian Government's Neighbourhood Battery Initiative (**Initiative**) Consultation Paper, March 2021 (**Consultation Paper**).

AGL supports an energy market system that empowers consumers to take control of their energy consumption and costs. As such, we are a market leader in the development of innovative products and services that enable consumers to make informed decisions on how and when to use their DER assets to optimise their energy load profile and better manage their energy costs. Our current DER product and services include our leading-edge Virtual Power Plant (**VPP**)[1], Peak Energy Rewards demand response program,[2] retail offer for electric vehicle (**EV**) owners[3] and EV subscription service.[4] Through our EV Orchestration Trial[5], we are also seeking to understand how EVs could help the wider energy system by 'orchestrating' vehicle charging through smart chargers, Vehicle to Grid chargers and API technology.

Our feedback on the Consultation Paper is based on our experience and knowledge of energy consumers' engagement with DER products and services and our ongoing involvement in DER policy and regulatory design.

Strategic direction

AGL supports the Victorian Government's long-term vision in which the increased uptake of DER contributes toward a decarbonised electricity system, whilst also increasing the reliability of supply and reducing energy system costs as we transition to a clean energy sector.

We welcome the Initiative's intent to support pilots and demonstrations to overcome barriers and challenges to the deployment of neighbourhood scale batteries to unlock the benefits of new energy storage models for communities, energy users and the electricity grid.

To achieve this policy intent, we consider the Initiative should test a wide variety of ownership models and asset configurations including a hybrid model that may entail a combination of front-of-the-meter (**FTM**) and behind-the-meter (**BTM**) assets. This would best enable the Victorian Government to assess the comparative

[1] For further information regarding AGL's Virtual Power Plant, currently available to customers in New South Wales, Queensland, South Australia and Victoria please refer to https://www.agl.com.au/solar-renewables/solar-energy/bring-your-own-battery?cide=sem-r&gclid=EAIaIQobChMIicjKmKuP5wIVyjUrCh2eXwvVEAAYASAAEgLZRPD_BwE&gclsrc=aw.ds.
[2] See further AGL Peak Energy Rewards, available at https://www.agl.com.au/newcampaigns/peakenergyrewards.
[3] See further, AGL EV Plan, available at https://www.agl.com.au/electric-vehicles.
[4] See further, AGL Electric Vehicle Subscription, available at https://www.agl.com.au/get-connected/electric-vehicles/ev-subscription.
[5] See further, AGL Electric Vehicle Orchestration Trial, available at https://arena.gov.au/projects/agl-electric-vehicle-orchestration-trial/.

economic feasibility of each model in facilitating 'value stacking' to provide multiple services across the electricity supply chain, including optimising self-consumption, wholesale energy and ancillary services, and network support services.

Accordingly, we recommend the Victorian Government broaden the Initiative eligibility criteria to facilitate the trial of a hybrid model for the deployment of neighbourhood scale batteries to provide insights to the Victorian Government about the best way to access and share the 'value stack' with Victorian consumers and local neighbourhood communities.

Ensuring balanced program eligibility criteria to test a variety of business models

As the Consultation Paper highlights, most of the current examples of neighbourhood scale batteries currently operating in the NEM are owned by distribution business for purpose of providing network services.

Recent studies into how best to maximise value staking for consumers have concluded that third parties like retailers/aggregators are best placed to deliver cost competitive neighbourhood scale batteries and share with consumers the multiple value streams that adhere to these investments because of their ability to interact across the energy supply chain, including the wholesale market.[6]

Nevertheless, retailer/aggregators face a range of challenges in deploying cost competitive neighbourhood scales batteries, including:

1. The lack of sufficiently detailed information to market on distribution network constraints and the power and energy required to defer network augmentation.

   For example, in the context of AGL's experience in the deployment of VPPs, distribution networks have provided AGL with useful LV network constraint data upon request to assess the suitability of VPP's to provide non-network solutions on their network. The kind of information that AGL relied upon is not generally available to the market. Most networks today do not publish constraints on the LV Distribution Network as part of their Distribution Annual Planning Reports. To facilitate the potential for the competitive market to provide cost competitive non-network solutions at the LV network level, the power and energy required to defer augmentation as well as the annual deferment value that can be paid to an aggregator for services within a geographic area need to be transparent and made available to the market.

2. Information asymmetry and connection agreement charges that result in comparative disadvantage.

   Distribution networks' ability to optimise the siting of storage to maximise value whilst also avoiding networks connection costs does not validate that a network solution would be more efficient *per se*. Rather, these perceived advantages are the by-product of the current information asymmetry between distribution networks and the competitive market and distribution networks' ability to discriminate against non-network solutions with the imposition of connection charges.

Informing a fit-for-purpose regulatory framework to support investment

Although there is currently no proposed regulatory framework specifically for these assets, the question of efficient ownership models has recently arisen in the context of the Australian Energy Market Commission's

[6] See Oakley Greenwood, Financial Viability of Community Scale Battery Ownership Models (2020), Available at https://energyconsumersaustralia.worldsecuresystems.com/Report%20community%20battery%20ownership%20models%20Feb2020.pdf.

(**AEMC**) 2020 Electricity network economic regulatory framework review[7] and the Australian Energy Regulator's (**AER**) Ringfencing Guideline review[8] and remains open for further consideration.

In the context of these reviews, AGL has consistently advocated the need a broader review of the regulatory framework for FTM distribution connected energy storage assets to ensure that the framework supports efficient investment in neighbourhood scale batteries for the benefit of all consumers. Among other things, such a review should consider:

- Whether contestability should extend to FTM distribution connected energy storage assets, preventing direct ownership by monopoly network businesses, in order to enable efficient deployment as well as co-optimisation of value streams for the benefit of all consumers through orchestration; and
- Whether distribution networks are appropriately incentivised to provide clear data, information and price signals for the provision of services from competitive-market distribution connected assets.

We note the analysis in the Consultation Paper that different ownership models will entail trade-offs by prioritising access to one value stream over another. Provided the Initiative tests a variety ownership models and asset configurations, including a competitive market led model such as the hybrid model proposed, we consider it would facilitate useful insights to:

- Mitigate the risk of value trade-off; and
- Inform the establishment of a fit-for-purpose regulatory framework to support efficient investment in neighbourhood scale batteries into the future.

Should you have any questions in relation to this submission, please contact Kurt Winter, Regulatory Strategy Manager, on 03 8633 7204 or KWinter@agl.com.au.

Yours sincerely

Elizabeth Molyneux

GM Policy and Markets Regulation

[7] See further AEMC, Electricity network economic regulatory framework review (2020), Available at https://www.aemc.gov.au/market-reviews-advice/electricity-network-economic-regulatory-framework-review-2020.
[8] See further AER, Electricity ring-fencing guideline review (2019), available at https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/electricity-ring-fencing-guideline-review/consultation.