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Your Ref: ERC0389
Contact Officer: Stephen Watson
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11 October 2024

Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Dear Ms Collyer,

Re: Retailer reliability obligation exemption for scheduled bi-directional units

The Australian Energy Regulator (AER) welcomes the opportunity to provide a submission in response to the draft determination published by the Australian Energy Market Commission (AEMC) on the retailer reliability obligation (RRO) exemption for scheduled bi-directional units.

The rule change request proposes to address the competing incentives for storage providers (in particular, operators of batteries and pumped hydro) in the context of the RRO. These entities are major providers of services that contribute to the stability of the grid, including frequency control ancillary services. For these providers, the current RRO framework may reduce incentives to provide these services, since the services can require consumption of energy, which contributes to an entity's RRO liability.

The draft determination has evolved from the initial rule change proposal. The AEMC has proposed a new concept, the "exempt market connection point", at which load would be exempt from the RRO. Exempt market connection points would include the connection points for Integrated Resource Systems with grid-scale batteries or pumped hydro energy storage. Load from these points would not contribute to an entity's liable threshold at the T-1 trigger date, or to the calculation of an entity's liability during a reliability gap period, removing the incentive not to provide system services.

Previously, the AER expressed in-principle support for addressing the issue described in the rule change request. We also encouraged the AEMC to consider reasonable alternatives to excluding one or more technology types in their entirety from the RRO.

The AEMC has considered an alternative option which would only exempt load for the purpose of providing grid support services. In this alternative option, the RRO would continue to apply to battery and pumped hydro consumption for the purpose of wholesale arbitrage. The AEMC considers that, for the purposes of compliance, it would be infeasible to distinguish between these two purposes. The AER acknowledges and agrees with the AEMC's assessment of this alternative option.

Overall, the AER considers that the draft rules would adequately resolve the issue of competing incentives for storage providers for the reasons the AEMC has outlined in its draft determination.

Our previous submission noted that the initial proposal would exempt any large load behind a connection point that contained a battery, which could impact the function of the RRO as this situation applies to a wide range of entities. The AEMC has addressed this issue by exempting this type of connection point only if the total annual consumption at the connection point is less than 10 GWh per annum. If it exceeds this threshold, the whole plant, including the co-located battery or storage asset, remains liable under the RRO.

We thank the AEMC for the opportunity to comment, and welcome further engagement as the AEMC progresses its final determination.

If you have any questions relating to this submission, please contact Stephen Watson on [REDACTED]

Yours sincerely

[REDACTED]

Danielle Chifley
General Manager
Policy Branch

Sent by email on: 11.10.2024