

Our Ref: 12640475
Your Ref: ERC0280
Contact Officer: Chris Ridings
Contact Phone: 08 8213 3487
Date: 16 September 2021

Ms Anna Collyer
Chair - Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Collyer,

Integrating energy storage systems into the NEM – draft determination

The Australian Energy Regulator (**AER**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *Integrating energy storage systems into the NEM* draft determination. This rule change proposal aims to make a number of changes that better integrate storage into the NEM, including accommodation of hybrid systems, taking into account the increasing amount of connection points with bi-directional flows of energy. We support the AEMC's approach to removing barriers to storage and hybrid systems participating in the market and moving toward a level playing field for all participants.

Market participation

The AEMC have proposed that storage systems in the NEM will be considered under the new definition of "integrated resource unit" (**IRU**) with a single Dispatchable Unit Identifier (**DUID**). This will allow them to issue a single bid consisting of 20 bands, 10 positive (for export) and 10 negative (for import). We note that this would be a differentiating factor for this type of market participant that could incur potentially significant implementation costs for participants and AEMO, and that this should be carefully considered and justified prior to a final commitment to this approach. In many situations we note that, while participants specify all 10 price bands, MW are not nominated into some bands at any time during the bidding cycle. At this stage, and into the future based on AEMO's ISP, the number of participants requiring bi-directional capability is low but not insignificant. If there are concerns about implementation costs for participants and/or AEMO, consideration may need to be given to reducing the number of price bands for integrated resource units.

Application of TUOS and DUOS charges

As mentioned in our submission to the Consultation Paper, we consider market participants would benefit from increased clarity and certainty in the National Electricity Rules (NER) in respect of network charging arrangements for energy storage systems. We also noted concern over potential distortionary outcomes arising from differential treatment of batteries by Distribution Network Service Providers (**DNSPs**).

We acknowledge the determination that storage should not be exempt from transmission use of system (**TUOS**) and distribution use of system (**DUOS**) charges and consider that this is necessary to ensure efficient storage location decisions. We consider that if this were not

the case, it could lead energy storage proponents to invest at the transmission network, even if investment at the distribution network would be more efficient if appropriate pricing signals were in place. Further, if existing exemptions continued and if instances of storage investment on the transmission network were to increase in the future, this may further exacerbate existing distortions, which would not be consistent with the National Electricity Objective (NEO).

Transmission Ring-fencing Guideline review

As noted by the AEMC in its Draft Determination, the AER intends to review the Electricity Transmission Ring-fencing Guideline. The review will consider the new kinds of services and areas of competition that have emerged since the existing arrangements were developed in 2002, and to consider alignment with the Electricity Distribution Ring-fencing Guideline.

In discussing concerns regarding inefficient location decisions, the AEMC state that the AER's Guideline Review "may result in a more consistent treatment of setting transmission network charges for storages."¹ We note that there are a variety of factors that affect location decisions, of which TUOS charging is only one. There are also other factors under the Rules that affect whether TUOS charges apply at a specific location.

It should also be noted that ring-fencing focusses on services, not assets. There are several different categories of services involved in the operation of storage facilities, each of which are the subject of different ring-fencing obligations:

- services that are used to convey electricity to or from the facility;
- the actual storage of electricity in the facility itself;
- the supply of other services (e.g. FCAS) using electricity taken from the facility, and;
- the supply of inputs to regulated services (again, using electricity taken from the facility).

Finally, the cost allocation provisions deal with the allocation of costs between different categories of services supplied by the network—they do not deal with the charges for the services the network provides.

We thank the AEMC for the opportunity to submit on this process. If you have any questions about our submission, please contact Chris Ridings on 08 8213 3487.

Yours sincerely,



Mark Feather
General Manager, Policy & Performance
Australian Energy Regulator

¹ Australian Energy Market Commission, *Integrating Energy Storage Systems in the NEM – Draft Determination*, p. 113