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24 January 2022

Warwick Anderson
General Manager Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Warwick

Re: Australian Energy Market Operator (AEMO) Determination 2022-27

I am writing in relation to the AER's Draft Decision and AEMO's revised proposed Pricing Methodology to apply from 1 July 2022 to 30 June 2027.

AusNet supports many aspects of the Draft Decision and the Revised Pricing Methodology including the move to using 365 day method to determine locational charges. This recognises that peak demand is no longer the main driver of transmission investment. We have reflected this change in our own pricing methodology as part of our transmission reset process.

However, we are concerned about the AER's consideration in the Draft Decision regarding whether access charges should apply to storage connections. Grid scale storage – particularly with grid-forming inverter technology – has potential to lower whole-of-system costs to customers during the energy transition by mitigating the need for less flexible network investment to support the integration of renewables. Importantly, storage can be operated in a way that does not drive additional transmission system costs by adding to peak demand.

To ensure the customer benefits of this technology are maximised there needs to be a clear framework as to if and how access charges will be applied, which should include a clear exemptions framework so access charges are not applied to storage which operates to the net benefit of consumers. The reasons for this, and our response to the AER's positions, are set out in the Attachment.

While we understand that the Pricing Methodology approved by the AER is focused on charges for prescribed services, we urge AEMO and the AER to provide as much certainty as possible on the approach AEMO will take to setting access charges for negotiated storage connections to maximise investment certainty. This will encourage the adoption of the lowest cost technological solutions to network constraints which is in the long-term interest of customers.

In the Final Decision we encourage the AER to consider the approach to storage pricing holistically, having regard to a wider range of evidence than was submitted into the initial stage of this review. There has been debate on this topic in the AEMC's Integrating Storage Rule

Change, and many stakeholder submissions on this topic have been submitted into that review process[1].

Please let me know if you have any comments in relation to this submission.

Sincerely,

Charlotte Eddy
General Manager Regulatory Strategy and Policy
AusNet Services

[1] See for example from the Clean Energy Council (https://www.aemc.gov.au/sites/default/files/documents/a43._clean_energy_council_.pdf) and the Australian Energy Council (https://www.aemc.gov.au/sites/default/files/documents/6._aec.pdf)

Attachment – Access Charges for Negotiated Storage

Charging TUOS to storage will increase whole-of-system costs to customers

Where storage operates in a way that it does not contribute to additional transmission system costs it should not be subject to access charges. For example, storage could be scheduled to charge during non-peak demand periods, and therefore is guaranteed not to contribute to network congestion.

Instead, a high penetration of storage – particularly storage with grid-forming inverter technology – has the potential to efficiently facilitate the integration of renewables. We are observing that storage has just reached the point of commercial viability and in some circumstances can provide network services (e.g. system strength) at a lower cost than alternative network investments (e.g. synchronous condensers). This is before considering the range of additional competition benefits that storage can provide by offering market, in addition to network, services.

Applying access charges to storage will not allow these alternative technologies to be considered on a technologically neutral basis and will likely make storage more costly than alternative network investments (for example, synchronous condensers). In this case, customers will miss out on the benefit of the lower cost network services solution. They will also not and will not benefit by 'sharing' the total TUOS bill amongst more parties, as network investments do not pay access charges.

Access charges applied to storage could be very material (i.e. several millions of $s a year for a 200MW battery if prescribed TUOS were applied). The charges would act like a tax on storage projects which, where the storage project would have operated to the net benefit of consumers, could distort efficient outcomes and increases in future costs to customers.

The need for regulatory certainty

While we recognise that the Draft Decision does not change the status quo for negotiated storage projects, under the negotiated connections process whether or not access charges will be applied will not be finalised until the project is well-advanced – during negotiations after a connection application is lodged. This uncertainty is unnecessary and can be avoided by clear rules-based guidance on this issue. Given this is not currently in place, we urge the AER and AEMO to consider alternative ways to provide this certainty in this decision.

We note that there are no regulatory barriers to AEMO including its proposed approach to access charges for negotiated storage connections in its Pricing Methodology. This language can be retained and it would not need to explicitly be approved by the AER in the Final Determination. However we understand this is not AEMO's preference and encourage AEMO to instead publish clear guidance on its intended approach, which is consistent with the approach adopted for previous storage installations (consistent with the AEMC's Integrating Storage Rule Change Final Decision[2]).

[2] AEMC, *Integrating Energy Storage Systems into the NEM Rule Determination*, 2 December 2021; p. 53 Section C.1.4)
https://www.aemc.gov.au/sites/default/files/documents/a43._clean_energy_council_.pdfprevious

Neutrality between transmission and distribution connected storage should not be an objective

The Draft Decision suggests that exempting transmission-connected storage from TUOS[3] could lead to inefficient storage investment on the transmission network, given storage connected to the distribution network must pay network charges.

Storage can be efficient and beneficial on both distribution and transmission networks. However, any comparison between the regulatory treatment of storage connected to distribution vs transmission networks must be more broadly considered than whether network charges are or are not applied. The regulatory frameworks governing the cost of connection of storage and ongoing charges are materially different, for example:

- Distribution-connected storage projects receive avoided TUOS payments, reflecting the value of avoided transmission investment they generate.
- Distribution connected storage can offset their expected distribution network charges against their initial connection costs
- Tariff structures for TUOS differ between distribution and transmission networks, which could materially impact the ability to minimise charges and therefore the level of the network charges levied.
- Distribution-connected storage does not pay DUOS associated with charging required to provide network support services.
- Distribution networks may also earn an incentive to contract storage to provide network support under the DMIS.

For these reasons the AEMC concluded that 'Looking at the connections arrangements under chapters 5 and 5A of the NER, it is clear transmission, embedded and micro embedded generators are not competing on a level playing field'[4].

We do not agree that the AER's Draft Decision necessarily improves the neutrality between transmission and distribution connected storage. Nor do we consider that this is a priority objective for this review, particularly given the very different value propositions and roles played by storage in distribution and transmission networks.

No need to avoid price shocks

The AER expresses a concern that a decision to exempt prescribed storage from TUOS may lead to price shocks at a future time if it became desirable for TUOS to be levied. We do not consider this a primary concern that should shape this decision. As is well documented, storage can have material benefits in helping to efficiently integrate renewables, reducing costs for customers.

We do not agree that levying charges which may inefficiently deter storage now should be done so as to potentially avoid a hypothetical price shock in future. Instead, the impact of changes in arrangements in future can be managed at the time with regard to the latest circumstances. Alternative options such as grandfathering can be considered.

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[3] Note these comments are made in the context of prescribed storage connections but apply equally to negotiated storage connections.

[4] AEMC, *Access, Pricing and Incentive Arrangements for Distributed Energy Resources,* 12 August 2021, p.89, section 5.2.8