

19 April 2021

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By email: [REDACTED]

Dear Ms Kaur,

Request for Approval of AEMO Modified TUOS Pricing Methodology

AEMO applied for and the AER accepted a National Electricity Law Section 59A Undertaking for the extension of time to allow for the process of revising the Transmission Use of System (TUOS) pricing methodology initially to 30 June 2021 and then to 30 June 2022. AEMO has developed a proposed TUOS Pricing Methodology (TUOS PM) through consultation with industry which it now submits to the AER for approval. This letter explains the issues requiring alteration of the methodology, the process used to finalise the proposed methodology, the stakeholders engaged and their views and the consequences of not approving the proposed methodology.

1. Issues for to resolve in the TUOS Pricing Methodology

The issues that AEMO sought to resolve are set out below. They are similar to those covered in our letters of request for our Undertaking.

1.1. Energy Storage Systems (ESS)

The issue:

- ESS could be treated as load, generation or combination of both.
 - If treated as generation, TUOS not applicable.
 - If treated as load, which flows are levied?
 - If treated as both, how is TUOS calculated?
- Consideration should also be given to loads that are a hybrid of load, generation and ESS.

Questions to resolve:

- Should ESS be treated as a generator and be fully exempt?
- What outcome are we trying to achieve?:

LETTER TO AER – PRICING METHODOLOGY

- Cost recovery or price signal?
- Do the rules/guidelines allow discretion?
- If treated as load, should ESS be levied only on gross demand or on net demand (i.e. demand minus injections)?
- Interaction with and distinction from avoided TUOS

1.2. Bi-directional flows at Transmission Connection Points

The issue:

- Embedded generation can cause reverse flows into the transmission system over the course of a year.

Questions to resolve:

- Should energy use pricing reflect only sum of inflows or the sum of inflows net of outflows?
- During a peak load period, how should a connection point that shows a net negative demand be treated?
- What impact does this place on direct connect customers?

1.3. MD10 vs 365 day locational pricing

The issue:

- Historically, investment was driven by a need to meet load and locational pricing placed a higher burden on demand that occurred on days when load was at its peak.
- Now, investments appear to be driven by new generation location when renewable generation is at its peak.

Questions to resolve:

- Should AEMO change the way that it determines locational pricing (currently MD10)?
- Is it more appropriate to calculate locational pricing based on a more generalised method rather than peak demand?
- Any new methodology still needs to be rules and AER guidelines compliant

1.4. Adjustments

The issue:

- Consideration of impact of RERT, Wholesale Demand Response (WDR), Virtual Power Plants (VPP)
- Use of 5min versus 30min data

Questions to resolve:

- What adjustments, if any, should be made to TUOS pricing/charges

2. AEMO process used to develop proposed TUOS Pricing Methodology

After a process of exploring the issues that may have some impact on the TUOS PM and issues already encountered with the existing TUOS PM¹, AEMO prepared and published an issues paper on 16 September 2020². This paper identified the known issues, suggested alternatives to handle those issues and asked for feedback and any additional issues that should be resolved as part of the TUOS PM review. The stakeholders that AEMO identified as important to be consulted on during this project were:

- Victorian TUOS paying customers
 - Victorian distribution businesses – AusNet Services, Jemena, United Energy, Powercor and CitiPower
 - Major transmission connected customers – Alcoa Portland, Kirkland Gold, BlueScope Steel, Air Liquide, Loy Yang Power and AquaSure
- AER
- AEMC
- EUAA
- Department of Environment, Land Water and Planning (DELWP)
- Transmission Network Service Providers from the other states

While there was dialogue with stakeholders, the main feedback was that they agreed that the issues were important, but they would wait to see AEMO's direction before engaging with written feedback.

AEMO then developed the consultation paper on 25 November 2020³ and entered into consultation using the AEMO website and engaging on officer level meetings with each of the stakeholders listed above. Individual discussions were offered to the above stakeholders and held with:

- Jemena, CitiPower/Powercor/United Energy
- Kirkland Gold, Air Liquide, AquaSure, BlueScope Steel and Alcoa
- EUAA

¹ Pricing Methodology for 1 July 2014 to 30 June 2019 https://www.aemo.com.au/-/media/files/electricity/nem/participant_information/fees/2015/approved-amended-pricing-methodology--1-july-2014-to-30-june-2019.pdf

² Pricing Methodology Issues Paper https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nsp_consultations/2020/pricing-methodology-issues-paper.pdf?la=en

³ AEMO TUOS Pricing Methodology Consultation Paper November 2020 https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nsp_consultations/2020/pricing-methodology-consultation-paper-final.pdf?la=en

In addition, Wwritten responses were received from BlueScope Steel (confidential) and EUAA⁴. The EUAA's submission was lodged only to support its member BlueScope Steel. Once EUAA confirmed with BlueScope Steel that AEMO was directly consulting with their member, they no longer required direct consultation.

3. Stakeholder views

Following the feedback received AEMO developed the final decision paper⁵ incorporating our response to the issues raised by stakeholders. The final decision paper included the proposed TUOS Pricing Methodology 2022 – 2027⁶.

4. Implications of Non-approval of proposed methodology

If the 365 day methodology using t-2 data (which is what is required for the Inter-Regional TUOS calculations at present) is not accepted then AEMO cannot default to the current MD10 methodology. This is because of the new NER timing requirements for release of the TUOS prices in Victoria being brought forward to 15th March each year so that the Distribution Business tariff schedules can be moved from a calendar year to a financial year. Therefore an alternative proposal will have to be developed if the 365 day methodology is not approved and further time will be required to develop and consult on this aspect.

5. Request for Approval

AEMO has identified a number of issues arising from the transition of the electricity power system from centralised large generation units to customer loads to a power system that is much more flexible with smaller generation units, some of which are not fully dispatchable, and loads which are hybrids of loads, distributed renewable generation and battery storage. AEMO has developed a comprehensive review of the TUOS pricing methodology with consultation with the industry which addresses these issues. AEMO therefore requests that the AER reviews the documents and approves the proposed TUOS Pricing Methodology 2022 – 2027.

If you would like to reference on our website that the proposed TUOS Pricing Methodology has been sent to the AER for approval and that the AER will soon consult on it, please provide me with a version of the statement for consideration and posting.

If you have any questions, please do not hesitate to contact me on [REDACTED] or [REDACTED] or alternatively James Brown on [REDACTED]

⁴ EUAA submission https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nsp_consultations/2021/euaa-submission-transmission-use-of-system-methodology-victoria.pdf?la=en

⁵ Final Decision Paper https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2021/tuos-pricing-methodology/pricing-methodology-final-decision-paper.pdf?la=en

⁶ Proposed Pricing Methodology https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2021/tuos-pricing-methodology/pricing-methodology-2022-2027.pdf?la=en

Yours sincerely

Franc Cavoli
Manager Network and Grid Management Services Acquisition

cc: Brett Hausler, Chief Governance Officer & General Counsel, AEMO

James Brown, Senior Management Accountant, AEMO

Israel del Mundo, AER

Attachments: Draft Pricing Methodology 2022 - 2027