FIRM POWER
Affordable. Reliable. Sustainable.

TO/
Mr Warwick Anderson
General Manager
Australian Energy Regulator
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Thursday, July 29, 2021

Dear Australian Energy Regulator,

AER's consultation on AEMO's proposed pricing methodology 2022-2027 (AER Ref: AC 85/21)

Firm Power is pleased to provide this submission in relation to the Australian Energy Regulator (AER's) review of AEMO's proposed pricing methodology 2022-2027.

This paper addresses two fundamental issues identified by the AER in its Issues Paper (AER Ref: AER212713):

1. AEMO's proposal <u>not</u> to charge large scale transmission connected Energy Storage Systems (ESS) for either supply (discharging) or consumption (charging) in the 2022-2027 regulatory control period, and
2. AEMO's proposal to retain the right to determine whether to charge an energy storage system at the time the facility applies to connect.

Firm Power believes AEMO's proposed treatment of energy storage systems is not appropriate and does not reflect the efficient cost of providing the proposed services or reflect the benefit or cost impact it may have on the network, such as taking into account the pricing principles for prescribed transmission services. In particular the treatment of ASRR cost allocation within prescribed transmission services.

Firm Power considers it important that any pricing principles should be considered against the National Electricity Objective (NEO) and the National Energy Retail Objective (NERO). The NEO as stated in the NER[1] is:
"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- *price, quality, safety and reliability and security of supply of electricity*
- *the reliability, safety and security of the national electricity system."*

The NEO refers to the three fundamental limbs of efficiency: allocative (efficient use of electricity services), productive (efficient operation) and dynamic efficiency (efficient investment).

[1] https://energy-rules.aemc.gov.au/ner/171

Efficient investment in electricity services for the long-term interest of consumers.

Firm Power believes that AEMO's proposal to not charge ESS when connected to the transmission network will lead to an inequitable concentration of ESS at transmission level versus distribution level. This approach creates an outcome which is not cost-reflective for consumers. AEMC's "Integrating Energy Storage Systems into the NEM" draft rule[2] seeks to undertake three key regulatory amendments:

1. *Making the NER clear on the treatment of TUOS and DUOS for generation and load.*

   The AEMC considers that exempting storage from TUOS and DUOS charges would not be technology neutral.

2. *Encourage new and innovative business models through removing cross-subsidies and incentivising participants to manage their demand by recovering non-energy costs proportionally from those who benefit from or cause the need for them.*

   By unduly weighting the concentration of ESS into the transmission network, it will impose costs on Transmission Network Service Providers who will seek to pass through these costs to the consumer, and

3. *Amending the framework to recover non-energy costs based on a participant's consumed and sent out energy over relevant intervals, irrespective of the participant category in which it is registered.*

   Firm Power believes that recovery of non-energy costs for transmission connected ESS should be equitable to the recovery of non-energy costs for distribution connected ESS. At a commercial level this would afford a level playing field irrespective of whether an ESS is transmission or distribution connected.

By AEMO not proposing to charge ESS proponents for TUoS creates a range of perverse outcomes including:

- Establishing a relative commercial barrier to entry for distribution connected ESS thereby leading to the potential for inefficient locational signals and concentration of ESS in transmission networks,
- Removing incentives for smaller ESS to participate in the future two-sided market, as they face higher costs of operation on a relative basis and
- At a more strategic level, constraining the propagation of ESS at the distribution level to provide the very network flexibility sought by the AEMC's draft rule and ESB's trader-services model.

In addition, AEMO's intent to charge an ESS for TUoS only at the time the facility applies to connect, does not support the principles of the efficient investment limb. In our view, AEMO's approach does not consider the consequences of deferring TUoS calculations until an ESS proponent seeks to negotiate a Connection Agreement as this creates high investment risk for project developers and owners who are unable to quantify the probability or quantum of a TUoS obligation until they have committed significant capital to undertake grid investigations and modelling.

Only after this commitment of capital and passage of time, can the process evolve to a stage where a

[2] https://www.aemc.gov.au/rule-changes/integrating-energy-storage-systems-nem

grid Connection Agreement can be negotiated with an NSP. This deferred calculation of TUoS creates uncertainty and an unacceptable barrier to investment and innovation.

In summary, Firm Power seeks a level playing field in which transmission and distribution ESS are both liable for the same quantum of Network Use of System (NUoS) charges. If AEMO can apply TUoS to transmission level ESS, this will generate the lowest cost outcome for the consumer by:

- Attracting the lowest cost of capital by reigniting investor confidence in a long term, network based ESS market where projects at either level of transmission face 'like-for-like' costs of operation, and
- Enabling both DNSP's and TNSP's to participate in the market and procure the most flexible, right sized, competitively priced network services from third parties.

If you have any questions in relation to this submission, please don't hesitate to contact Marcus Keller at [redacted].

Your sincerely,

[redacted]

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