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Australian Energy Market Commission
Lodged online

Re: Retailer Reliability Obligation Review

We thank you for the opportunity to provide feedback on the Commission's published draft recommendations to improve the operation of the Retailer Reliability Obligation (RRO).

Our primary feedback is in relation to Recommendation 12 of the review which proposes to maintain the existing role of Market Customers as Liable Entities. As currently defined, large-scale battery energy storage systems (BESS) are considered to be Liable Entities under the RRO as Market Customers, and nearly all existing (and future) large batteries would be captured under the 10 GWh threshold. This has the effective outcome of requiring batteries to contemplate entering contracts with coal or gas generators.

We consider that this is not aligned with the original intention of the RRO, which the associated Decision Regulation Impact Statement (DRIS) outlined was to implement "a mechanism designed to encourage new investment in dispatchable sources of energy generation such that the electricity system operates reliably." As such, the DRIS further outlines the intention under the RRO is for "retailers to contract with generation, storage or demand response to incentivise dispatchable generation to be available to meet consumer and system needs."

Given the role BESS play in the energy market, it is highly unlikely these assets would be purchasing during a period that would contribute to an actual reliability gap. Rather, BESS are supporting the market when most needed and firming intermittent renewable generation. During periods of maximum operational demand, utility-scale BESS will be dispatched into the Energy and FCAS markets providing Generation during the high-prices correlated with these events. This is particularly true during critical Lack Of Reserve (LOR) events.

Further, when faced with the current decision under the RRO of whether to enter into cap contracts for the relevant period, or simply commit to not to charge during the relevant period, the latter appears to be the logical commercial outcome.

It appears clear, therefore, that capturing BESS as Liable Entities via their status as a Market Customers remains misaligned with the intended outcome of the RRO (rather it was intended retailers may contract with BESS to support greater investment in these critical assets). As such, we continue to consider there should be a clear exemption for BESS to enter into contracts under this requirement, and should be considered as a Bi-Directional Unit (BDU) rather than a market load.

Without this exemption, there are two unintended consequences:

- Discourages further investment into utility-scale BESS Generation, further exacerbating the problem that the RRO is attempting to remedy by incentivising the investment in Scheduled Generation.
- Heavily discourages utility-scale BESS from being dispatched into Energy or FCAS Regulation markets as a load during the prescribed periods, even if the market needs the additional load and has negative price signals due to an abundance of generation. Market Participants will be reticent of providing this service due to fear of penalties and cost recoveries, even if the load did not contribute to the operational demand during the LOR event.

An alternative to a full exemption would be to consider a BESS-specific compliance mechanism or definition of 'qualifying contracts' that would ensure that batteries are not diminishing reliability during the identified period of concern. As noted above, however, given the potential severity of the current penalty regime, BESS operators are incentivised to take a risk-averse approach whereby their assets are bid at zero during the entire identified window to ensure compliance. Under any BESS-specific compliance arrangement we therefore consider it critical that BESS are still able to charge at times that fall during the broadly defined window but when there is no actual reliability gap (i.e. as identified by normal market price signals).

We further consider that under the current rules, and any new compliance mechanism, it is also necessary to make allowances for BESS charging for system security purposes, such as to address frequency deviations via the Regulation and Contingency markets. As outlined above, the current strategy to commit to not charging under RRO acts as a disincentive for BESS to provide these necessary services.

We look forward to engaging further on this important topic.

Kind Regards,



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