AUSTRALIAN ENERGY REGULATOR

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5 July 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO BOX 2603
SYDNEY, NSW, 2001

Dear Ms Collyer,

Re: Retailer Reliability Obligation Exemption for Scheduled Bidirectional Units

The Australian Energy Regulator (**AER**) welcomes the opportunity to provide this submission to the Australian Energy Market Commission's (**AEMC**) consultation paper on a proposed amendment to the National Electricity Rules (**NER**) to exempt scheduled bidirectional units (grid scale batteries) from the Retailer Reliability Obligation (**RRO**).

By way of executive summary, the AER:

- provides in principle support for action that addresses the issue of competing incentives facing batteries when providing system security services during reliability gap periods, including the risks of RRO non-compliance and Procurer of Last Resort costs; and
- encourages thorough consideration of all reasonable alternatives to enable ongoing participation of batteries in the RRO before any decision is made to exempt a technology type (in this case, batteries and/or pumped hydro) in its entirety.

We set out our reasoning below.

AER views on issues outlined by proponents

The RRO is a mechanism designed to encourage new investment in dispatchable sources of energy generation such that the electricity system operates reliably.[1] The AER considers the

[1] Energy Security Board, 'Retailer Reliability Obligation Decision Regulation Impact Statement', 19 December 2018, p. 3

RRO to be an important instrument for reliability, and any changes to the framework should be designed in a way so as not to reduce its effectiveness.

We broadly agree with the arguments raised by the proponents as to the potential effects of the treatment of batteries under the current RRO framework, including potential negative impacts on the market and the management of power system security.

We consider that the treatment of batteries under the current RRO framework may:

- increase costs to consumers through batteries' higher bids for frequency control ancillary services (**FCAS**) provision, as bids would incorporate the costs of contracts acquired by the batteries to cover potential RRO liability. Alternatively, batteries may simply withdraw from bidding into FCAS markets during reliability gap periods, thereby reducing competition in these markets;
- create significant system security risks should batteries withdraw from providing FCAS and various other important system security services in the National Electricity Market (**NEM**) in order to limit exposure under the RRO. As a technology, batteries are highly suited to providing these services, especially very fast FCAS, and should not be discouraged from doing so; and
- reduce future investment in battery assets, if investors consider that owning or operating batteries is more risky or less profitable in the scenario where batteries may be liable under the RRO.

We also note the nature of a battery's load is different from, for example, customer loads in the NEM. Batteries undergo charging so that they can provide generation (either energy or FCAS and other system security services) later, which improves reliability. This may lend further support to the notion that batteries should be treated differently from other NEM loads in terms of RRO liability.

Form of amendments to framework to address policy issues

While we consider in principle that action should be taken to address the issue raised by the proponents, completely removing a technology type (e.g. batteries and/or pumped hydro) from liability under the RRO would represent a significant change to the RRO framework and is a decision that should not be made lightly. In particular, we note the increasingly significant role storage is expected to play in terms of firming capacity and consequently its contribution to reliability. We consider exemptions of this nature should only be entertained where reasonable alternatives that would enable ongoing participation of batteries in the RRO are not available.

More generally, any solution may have its own unintended flow-on effects. The AEMC should consider both the purpose of the RRO (in the context of the National Electricity Objective) and the practical implementation of its chosen solution (including transparency and predictability) in deciding whether to make changes to the RRO framework.

Treatment of pumped hydro

Like batteries, pumped hydro can increase or decrease load and may similarly seek to avoid consuming energy needed to provide system security services during gap periods under the current framework. As such, we consider it may be warranted to treat pumped hydro and batteries consistently in any changes to RRO liability.

Issues regarding proponents' drafting of rule change

We note that the proponents' proposed drafting of the rule change may be problematic as it would exclude any load behind a connection point that contains a battery, not just the battery load itself. For example, it would exclude a large manufacturer's load if they also happened to have a sufficiently large battery installed behind the same connection point.[2] We consider that any solution the AEMC may propose to address the issue raised by the proponents should be specific enough to affect only batteries and/or pumped hydro and not have flow-on effects regarding other geographically co-located loads.

Conclusion

The AER values the opportunity to provide a submission on this consultation paper and is available to discuss the contents of the submission further at a mutually convenient time.

If you have any questions relating to this submission, please contact Harry Gordon on 02 6243 3358.

Yours sincerely

Matt Garbutt
Executive General Manager
Compliance, Enforcement & Surveillance Division

[2] This may be the case with a 'hybrid' facility, such as those discussed in the Integrating Energy Storage Systems rule change, which may have a battery coupled with a generating system and/or load behind the same connection point.