Clean Energy Investor Group
50 Camberwell Road Hawthorn East VIC 3123

4 July 2024

Ms Ilaria Barletta
Project Leader
Australian Energy Market Commission
Lodged electronically via [AEMC online portal]

Dear Ms Barletta

Response to AEMC's proposed rule change on the retailer reliability obligation
The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) Consultation paper on the Retailer reliability obligation (RRO) exemption for scheduled bi-directional units published in May 2024.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around $38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy future on behalf of the investors who will provide the low-cost capital required for this transition.

Key Points

- **CEIG supports the proposed changes** to the design of the RRO and the exemption of scheduled bidirectional units from liability.
- CEIG sees a **significant misalignment between the intended purpose of the RRO** and the adverse effects it has on large-scale storage assets and system reliability.
- **The market benefits of imposing RRO liabilities on large-scale storage assets are unclear.**
- The current design **increases costs, impacts reliability, introduces security risks, and adds uncertainty for investors**, potentially deterring future battery investments.

- CEIG acknowledges that **the RRO has led to unintended consequences** and believes **this minor rule change will mitigate the investment and operational risks** caused by this rule.
- **CEIG stresses the importance of finalising this matter within the year**, before the next RRO period begins in NSW.
- CEIG recommends **prioritising the rule change for battery storage first and addressing hydro at a later stage** to ensure a fast resolution for battery storage.
- CEIG also has **concerns about network charges on batteries**, advocating for exemptions during charging phases.
- **CEIG urges the AEMC and AEMO to collaborate transparently with investors and storage developers to**:
    - Reassess rule changes hindering battery storage and seek solutions to remove these barriers.
    - Review potential new market services to compensate storage owners and offer additional revenue streams for ancillary services.
    - Establish contracts for existing markets to help storage projects obtain better financing and lower equity returns.

CEIG supports the proposed rule change

CEIG supports the proponents' proposed changes to the design of the RRO, specifically the exemption of scheduled bidirectional units from being considered liable assets through an amendment to the definition of an RRO liable entity.

CEIG recognises that the RRO has led to unintended consequences, and this minor rule change would bring immediate market and system benefits. This underscores the need for a more nuanced assessment of the RRO's application and the treatment of storage assets. Exempting these assets will mitigate both the investment and operational risks associated with the RRO, ensuring their full value can be realised.

CEIG understands that the purpose of the RRO is to ensure energy retailers supply sufficient quantities of reliable power to the market. However, the full extent of the incompatibility between providing grid-supporting services and the RRO liability was not well understand and was therefore underestimated when the Integrating Energy Storage Systems (IESS) Rule Change was finalised.

The RRO liability fails to differentiate between energy consumed for critical grid services and energy consumed by a market participant following dispatch instructions, such as charging to prevent a future unserved energy event. This forces market participants with batteries to either stop charging during a reliability event to meet their RRO obligation, breach the RRO and incur a liability, or purchase hedging contracts from existing thermal generators to offset this potential load. Each of these options undermines the essential role of utility-scale batteries in providing critical grid stability services, such as grid inertia, system strength, and fast frequency control, creating National Electricity Market (NEM)-wide risks. For example, CEIG is aware of timing mismatches where batteries are directed to provide load-side system services during an RRO liability window period.

This increases costs, impacting consumers, owners, and operators of battery storage assets, worsens reliability outcomes, introduces system security risks, and adds uncertainty for battery storage investors. Failure to address this issue promptly could deter future investments in storage assets in the National Electricity Market (NEM).

The market benefits, if any, from imposing these RRO liabilities on large-scale storage assets remain unclear. Thus, CEIG sees a significant misalignment between the intended purpose of the RRO and the adverse effects it has on large-scale storage assets and system reliability.

CEIG predicts that these challenges will only intensify with the rise in renewable energy penetration, heightening the conflict between the objectives of the RRO and the requirements of the evolving energy system for low-cost, reliable, and secure energy. CEIG believes that grid security and reliability requirements should take precedence over RRO compliance.

Additionally, CEIG emphasises the need to finalise this matter this year before the next RRO period begins in NSW. We recommend prioritising the rule change for battery storage first and addressing hydro at a later stage, ensuring that the consideration of hydro does not delay a fast resolution for battery storage.

Concerns around network charges
Apart from RRO compliance, CEIG also has concerns regarding network charges applied to both the charging and discharging of batteries. This issue creates uncertainty for investors as it imposes double payments of network charges for storage facilities, unlike thermal generators which are exempt from such charges.

CEIG advocates for the exemption of storage projects from network charges during the charging phase of battery projects.

CEIG recommends a review of all markets and contracts
The existing wholesale market signals lack the strength to incentivise investment in energy storage, and the timeframes for changing market settings are too slow. New services required to support the clean power system are not being developed, hindering the creation of markets for inertia and reserves.

We urge the AEMC and Australian Energy Market Operator (AEMO) to collaborate transparently with investors and developers or storage to[1]:

- Reassess rule changes that create further barriers for battery storage and explore ways to remove these barriers.
- Conduct a review of potential new market services that could compensate storage

[1] Nexa Advisory & CEIG (Mar-24), *Energy storage financeability in Australia*

owners and provide additional revenue streams for ancillary services, including inertia, system strength, and voltage control.

- Establish contracts for existing markets - financial contracts or Frequency Control Ancillary Services (FCAS), peak energy, or a volatility index - that would help storage projects secure better financing and lower equity returns.

CEIG thanks the AEMC for the opportunity to provide feedback on its proposed rule change and looks forward to continued engagement on these issues. Our Acting Policy Director can be contacted at daniel.zelcer@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

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