

10 September 2021

Ms Kate Wild
Director, Australian Energy Market Commission
Lodged on AEMC website

Dear Ms Wild,

Response to Draft Determination – Integrating energy storage systems into the NEM (ERC0280)

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC)'s draft Determination on *Integrating energy storage systems into the NEM* (ERC0280) published on 15 July 2021 in response to a rule change request from the Australian Energy Market Operator (AEMO).

CEIG represents domestic and global renewable energy developers and investors, with more than 11GW of installed renewable energy capacity across more than 70 power stations and a combined portfolio value of around \$24 billion. CEIG members' project pipeline is estimated to be more than 18GW. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

KEY POINTS

- CEIG is supportive of the AEMC's proposals around recovery of non-energy costs.
- CEIG disagrees with the proposed treatment of Transmission use of System (TuoS) charges: Integrated Resource Providers (IRPs) should be exempt from TuoS charges.
- The AEMC's proposal to place TuoS charges on IRPs is likely to lead to worse net outcomes for consumers, including higher wholesale prices. CEIG is also concerned

that it could jeopardise the transition to a clean energy system by negatively impacting the economics of storage assets.

- The AEMC should not assume that locational marginal prices should or will be put in place, and it should not discard AEMO's proposal to exempt storage assets from TuoS charges on that basis.
- By instigating that storage should pay TuoS charges by default, future storage projects will be in a weaker position to start negotiating exemptions from TuoS charges with their relevant Transmission Network Service Providers (TNSP), leading to potential worse outcomes for consumers.
 - If it goes ahead with its proposal, the AEMC should consider placing the burden of proof for non-zero TuoS charges on TNSPs.
- Conflict of interests could arise as the competitive arms of TNSPs increasingly compete to install storage assets.
 - If it goes ahead with its proposal, the AEMC should consider placing guardrail mechanisms and/or developing guidelines to ensure those conflicts are appropriately managed.

Support proposals around recovery of non-energy costs

CEIG is supportive of the AEMC's proposals around recovery of non-energy costs. The proposed amendments to Frequency Control Ancillary Services (FCAS) settlement are aligned to the National Electricity Objective and should be acted upon given they were already delayed from the Infigen rule change proposal on FCAS settlement.

Engagement with industry - TuoS charges

CEIG welcomes the AEMC's intent to clarify the application of TuoS and DuoS charges to storage assets but is concerned that material changes are being proposed (compared to AEMO's initial rule change proposal) at a late stage in the process.

CEIG members have expressed serious concerns about the AEMC's proposals on TuoS charges and their comments echo the feedback provided to the AEMC during the Q&A session of 3 September 2021.

The AEMC should carefully consider the impacts of its proposals on TuoS charges and consult further with industry as required. This need not and should not however delay the implementation of those parts of the draft Determination that are generally agreed to by stakeholders.

Storage assets should be exempt from TuoS charges

CEIG does not agree with the AEMC's proposed treatment of storage assets around TuoS charges and believes that they should be exempt from paying TuoS charges, in line with AEMO's rule change proposal.

CEIG agrees with AEMO's argument that storage assets act "as a part of the supply chain" and not as end-consumers of electricity, and TNSPs do not have to increase the capacity of the transmission network to connect storage assets.

Storage assets also do not have the same rights as consumers and should therefore not be charged for TuoS. It would be helpful if the National Electricity Rules included a definition that clarifies the difference between 'final consumption' and 'accumulation' as subsets of load.

The proposal to charge TuoS by default and the uncertainty around whether an exemption can be negotiated with the TNSP will create revenue uncertainty for project developers and investors and will increase the risk premium applied on storage asset projects, ultimately leading to higher prices for consumers. It also creates a barrier to entry and is likely to reduce competition.

The AEMC's Final Determination should make clear that IRPs are exempt from TuoS charges.

Unintended consequences from not exempting storage assets from TuoS

The current approach to TuoS charges is likely to lead to higher prices for consumers:

- storage assets would need to increase their wholesale bid prices to recover TuoS charges;
- if they cannot pass on those costs through wholesale prices, storage assets will be less active in the market and competition will decrease.

CEIG expects that consumers would be worse off overall as the cost impact of the pass-through of TuoS charges is likely to be higher than the savings they can expect to make on TuoS charges.

CEIG agrees with the ESB and the AEMC that storage assets can provide substantial benefits to consumers and should be incentivised to locate in the grid. Our modelling¹ indicates that 15GW of storage needs to be installed between now and 2042 to transition the National Electricity Market to clean energy. State-based clean energy programs have already noted that they will rely on storage assets to firm their large wind and solar investment programs.

¹ CEIG *Clean Energy Investor Principles – Unlocking low-cost capital for clean energy investment*, Aug-21 (www.ceig.org.au/investor-principles)

If the exemption from TuoS charges is not granted, CEIG is also concerned that it could jeopardise the transition to a clean energy system by negatively impacting the economics of storage assets. This will lead to lower volumes of investment and at a higher cost of capital. It could also impact the success of State-based clean energy programs.

AEMC should not assume that LMPs will be implemented

It also appears that one reason for the AEMC's decision not to provide a clear exemption from TuoS charges is that this exemption would need to be unwound if the Energy Security Board (ESB)'s locational marginal pricing (LMP) proposals were to be implemented.

CEIG has recently re-iterated² its recommendation that pricing approaches that use LMPs should be avoided as they do not deliver the revenue certainty that is required for investors to commit the low-cost capital required to deliver the necessary transformation of the energy system.

The AEMC should not assume that LMPs should or will be put in place and it should not discard AEMO's proposal to exempt storage assets from TuoS charges on that basis.

Compromised outlook for negotiation of transmission service agreements

CEIG understands that the AEMC has aimed to provide an avenue for storage asset owners to negotiate transmission service agreements with TNSPs, and that the proposed rule change does not impact on existing negotiated agreements where a storage asset owner may have negotiated not to pay any TuoS charges.

However, by instigating that storage should pay TuoS charges by default, the proposed rule change will place future storage projects in a weaker position to start negotiating exemptions from TuoS charges with their relevant TNSP.

The AEMC appears to have assumed that the template for existing negotiated agreements could be rolled over when, in practice, TNSPs are likely to change their negotiating strategy in accordance with the new rule.

If the AEMC goes ahead with its proposal, it should require TNSPs to:

- be transparent around the methodology and inputs applied to quantify a proposed level of TuoS charges.
 - This is aligned to CEIG's recommendation in its Clean Energy Investor Principles³ that market bodies promote greater transparency and accountability; and
- demonstrate why non-zero TuoS should apply if this is the TNSP's starting position (rather than placing the burden of proof on storage asset owners).

² CEIG *Clean Energy Investor Principles – Unlocking low-cost capital for clean energy investment*, Aug-21 (www.ceig.org.au/investor-principles)

³ CEIG *Clean Energy Investor Principles – Unlocking low-cost capital for clean energy investment*, Aug-21 (www.ceig.org.au/investor-principles)

TNSPs and potential conflict of interests

Finally, CEIG is also concerned that conflict of interests within TNSPs could arise as the competitive arms of TNSPs increasingly compete to install storage assets.

If the AEMC goes ahead with its proposal, the AEMC should consider:

- placing guardrail mechanisms to ensure conflict of interests within TNSPs are appropriately managed; and
- developing guidelines to address concerns over potential conflict of interest issues.

CEIG thanks the AEMC for the opportunity to provide feedback on the draft Determination and looks forward to continued engagement on this issue. Our Policy Director Ms. Marilyne Crestias can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,



Simon Corbell

Chief Executive Officer and Chairperson

Clean Energy Investor Group Ltd

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