

16 September 2021



Mr Joel Aulbury
Australian Energy Market Commission (AEMC)
GPO Box 2603
Sydney NSW 2000

Dear Mr Aulbury

AEMC DRAFT DETERMINATION: INTEGRATING ENERGY STORAGE SYSTEMS INTO THE NEM (ERC0280)

Endeavour Energy appreciates the opportunity to provide this response to the AEMC's *Integrating Energy Storage Systems into the NEM* draft rule determination (draft rule).

With the electricity system becoming increasingly reliant on storage to firm up the transition toward decentralised renewable generation, we support the objective of the draft rule to remove barriers for grid-scale storage and hybrid systems participate in the market. These barriers arise primarily from the uncertainties and inefficiencies related to the current requirement for operators with bi-directional flows to register as both a generator and customer.

Integrated Resource Provider

The draft rule addresses these issues by introducing the Integrated Resource Provider (IRP) registration category which can flexibly accommodate grid-scale storage and hybrid systems irrespective of their technology type or configuration. Notably, the draft rule does not introduce obligations for IRPs that are in addition to those which currently apply to generators and customers which ensures participants for whom it will be mandatory to register as an IRP will not be worse-off and not deter those for whom it is voluntary.

By streamlining requirements and clarifying dispatch arrangements and scheduling obligations, we consider the draft rule creates a simpler and more manageable framework for storage and hybrid participants to register, classify and participate in the NEM.

Importantly, the technology neutral IRP category aligns well to the ESB's vision of a two-sided market and its efforts to evolve the participation framework to ensure it can better integrate new technologies and business models and make it easier to provide new services to customers. As revealed in their Post-2025 market design recommendations, the ESB looks to achieve this through a 'trader-service' model which attaches specific obligations to services and activities rather than to the assets from which they are provided.

Non-energy costs

The draft rule also amends the framework for recovering non-energy costs from participants, so they are based the energy consumed from and sent to the grid over relevant trading intervals irrespective of the category they are registered. This removes the ability afforded only to select participants to reduce their attributed costs (or be eligible for a payment) through netting energy flows at a single or across multiple connection points.

We consider it appropriate that beneficiary and causer pays principles determine a participant's contribution towards non-energy costs. Removing inconsistencies which favour some participant categories over others will level the playing field and facilitate greater competition in energy and ancillary services markets.

Network charges

We support the AEMC's draft decision to not exempt storage from network charges and agree the NER is sufficiently clear on the treatment of TUOS and DUOS for generation and load and how they apply to storage and hybrid systems. Crucially, the draft decision avoids embedding cross subsidies in the

NER that would unfairly allocate more costs to other network customers which would only increase as more and larger storage projects connect to the NEM. In our view, there is no reasonable basis to amend the NER to exempt storage and hybrid operators from network charges that would only serve to improve the commercial viability of their projects with no discernible benefit accruing to customers.

To preserve both technology neutrality and beneficiary/causer pays principles which underpin other elements of this rule change and the NER more broadly, it is imperative that networks can recover costs from storage and hybrid systems in a manner consistent with other load customers. That is, through charges based on their grid consumption which are reflective of the efficient cost of the service(s) provided to them from the network. We expect continued tariff reform and dynamic locational price signals more specifically will further improve networks' ability to design fit-for-purpose tariffs which accurately reflect the actual cost of serving customers.

Also, we fundamentally disagree with suggestions from some stakeholders that storage should be exempted from TUOS and DUOS on the basis they dispatch energy consumed from the grid when it is beneficial to the system (i.e. is not a permanent load) and is needed to encourage investment in system security services. Ultimately, network tariffs apply to measured consumption at the connection point and their application should remain blind to how this consumption is used by the assets behind the connection point or the criticality of the services that are provided from those assets.

The negotiating framework in the NER provides an appropriate and flexible pathway for networks and storage proponents to explore opportunities to reduce or waive network charges which we anticipate will be increasingly utilised to connect storage projects. We encourage proponents to engage with networks on this issue early in the planning process so the financial impact of network charges can be better understood in advance to committing to the project.

Finally, we do not support exemptions being the 'default' position as has been proposed by some stakeholders which would require a process for networks to subsequently apply and/or justify the application of TUOS and DUOS for storage. In our view, requiring networks to initiate a process to unwind cross-subsidies that are introduced from the outset is counter-intuitive and would not help promote NEO. Also, the NER already provides substantial transparency and safeguards to ensure network tariffs applied to storage are cost reflective and accord to the pricing principles through AER oversight and approval during the TSS and annual pricing process.

Connection agreements for network owned storage

We support the AEMC's draft decision to not establish a new process for connecting network owned storage. Networks are best placed to determine performance standards and technical requirements for batteries providing network support services and the same process used to connect conventional network assets should apply.

Where network owned batteries are used to provide competitive services, networks will typically partner with appropriately registered and accredited third-party operators who will act as the connection applicant. Planned updates to the distribution and transmission ring-fencing guidelines to better delineate competitive and monopoly services provided from batteries will further ensure networks do not connect their batteries on favourable terms to the detriment of third-party owned storage.

If you have any queries or wish to discuss our submission please contact Joe Romiti, Regulatory Analyst at Endeavour Energy on (02) 9853 6232 or joseph.romiti@endeavourenergy.com.au.

Yours sincerely



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