



INFORMATION

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Integrating storage into the NEM consultation paper

The Australian Energy Market Commission has released a consultation paper on a rule change request from the Australian Energy Market Operator that proposes changes to the National Electricity Rules to better integrate storage and hybrid facilities.

Consultation on proposal to integrate storage into the NEM

Energy storage is becoming an increasingly important part of the national electricity market (NEM) and recent forecasts point to a greater role for storage in the future. This poses the question of how the National Electricity Rules (NER) should evolve to support the market as it transitions.

The Australian Energy Market Operator (AEMO) has raised concern with how grid scale batteries, aggregations of smaller batteries, and new business models with a mix of technologies behind the connection point (hybrid facilities), register and participate in the NEM. AEMO's rule change request seeks to address these issues by amending the NER to define storage technologies and set specific obligations for these technologies.

To assess the rule change proposal, we need to understand the significance of the issues AEMO identified and whether they are likely to become worse in the future. The consultation paper first seeks your feedback on the importance and urgency of the issues, and whether they require a regulatory solution.

To the extent these issues are significant and do require changes to the NER, we are also asking for feedback on whether it would be better to integrate storage and hybrid facilities into the framework by:

- defining them and writing specific rules for them, as proposed by AEMO; or
- whether a level playing field could also be achieved through more minimal amendments to the existing framework.

Further, this needs to be considered in light of the Energy Security Board (ESB) developing a post-2025 design and in particular, the development of a two-sided market. Since AEMO submitted its rule change request in August 2019, the ESB commenced working on the design for a two-sided market that may no longer specifically define storage and hybrids in the NER. This is because the two-sided market design work is considering a move away from defining specific technologies and assets in the rules towards a technology-neutral approach that attaches obligations to services. This rule change request will need to be considered in the context of these broader reforms, which may require solutions other than one that defines storage assets and hybrid facilities in the NER. We are interested in feedback on the best way to proceed given the different approaches of the two sets of reforms.

In addition, there are several issues we are seeking feedback on throughout this consultation paper, including:

- the registration and classification framework
- technical issues relating to the connection and operation of storage and hybrid facilities in the NEM, including participation in central dispatch
- the application of fees and charges, including transmission and distribution use of system charges and non-energy charges levied by AEMO
- the intervention compensation framework
- the Retailer Reliability Obligation

- technology-specific language and definitions used throughout the NER.

What is the process for this rule change request?

Under the National Energy Law (NEL), the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).¹ This is the decision-making framework that the Commission must apply. To ensure its final rule determination contributes to achieving the NEO, the Commission proposes to consider whether the proposed rule, or a more preferable rule:

- **Promotes competition:** Would the changes proposed remove barriers to entry and reduce operating costs?
- **Creates a level playing field:** Are the proposed obligations proportional, technology neutral and even-handed?
- **Promotes transparency:** Would the proposed clarifications to the obligations and charges in the rules reduce information asymmetry and improve the decision-making of participants?
- **Appropriately allocates risks:** Would the appropriate parties be assigned responsibility for costs under the approaches proposed for cost recovery?
- **Minimises administrative and regulatory burden:** Would the proposed changes reduce the administrative burden on AEMO and participants?
- **Enhances system reliability and security:** Would the proposed obligations on storage improve reliability and security?

This rule change request will be assessed over a longer period than the standard rule change process, consisting of longer than usual consultation periods and time-frames for completing the draft determination. This is due to:

- awareness of the difficulties faced by stakeholders given the current COVID-19 pandemic
- its interaction with other reforms such as the ESB's post-2025 program, in particular the two-sided-market design initiative
- the extensive and detailed nature of this rule change request, which requires changes to most chapters of the NER.

Submissions to this consultation paper will be open for a period of eight weeks and will close on **15 October 2020**.

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¹ Section 88 of the NEL.