



Fact sheet — Network use of system charges for storage

The Australian Energy Market Commission has made a final rule on Integrating energy storage systems into the NEM that retains the current arrangements for network charges for storage.

The final rule retains the current arrangements for transmission charges for storage, with minor amendments. This means storage proponents will continue to be able to choose whether to receive a prescribed transmission service and pay Transmission use of system (TUOS) charges, or a negotiated service for a negotiated price, which may be zero.

What are transmission use of system charges and who pays for them?

Transmission use of system charges relate to the cost of shared network services to convey electricity from sources of generation connected to the transmission network to customers. Under the final rule these services are paid for by Transmission Customers (e.g. a market customer, integrated resource provider (IRP) or a DNSP).

What are negotiated and prescribed shared transmission services?

A storage provider seeking to connect to the transmission network must obtain a shared transmission service. In doing so, it may choose between the following options:

- **A prescribed transmission service** that has a regulated price and service standard. Charges for a prescribed service are TUOS charges.
- **A negotiated transmission service** for a price and level of service that is negotiated with the TNSP. Although the charges for these negotiated services are 'use of system charges', they are not TUOS. TUOS only refers to prescribed transmission services.

What was proposed in the rule change request?

In its rule change request, AEMO considered that there was a lack of clarity on how transmission use of system charges apply to grid-scale storage and hybrids because they are not defined in the National Electricity Rules (NER). To address these issues, AEMO proposed to define storage and exempt it from TUOS charges.

What were stakeholder views on transmission use of system charges?

Many stakeholders, including storage proponents and operators, suggested either:

- a full exemption from TUOS for transmission connected storage
- introducing more cost reflective services with lower performance standards and lower tariffs for transmission connected storage and other scheduled loads.

Network businesses and other stakeholders supported the current framework which allows storage to negotiate an outcome that reflected their impact on the network. The AER and ENA considered a blanket exemption on network charges was not appropriate.

What is the Commission's final decision?

The final decision retains the current framework to allow storage to choose to connect under a negotiated or prescribed agreement for shared transmission services.

It is important to note that in keeping the current arrangements, the Commission is not suggesting that storage must pay a network charge, including TUOS. Rather, storage participants can choose the service they need and whether they go through the process of obtaining a negotiated or prescribed shared transmission service.

We consider that a change to the current framework to exempt storage would not promote the NEO as it would not send storage proponents and operators price signals that reflect:

- the efficient cost of providing network services and therefore provide efficient operating and investment incentives
- the benefit storage may have on the network, where a cost reflective charge may result in storage being paid for the benefits they provide at certain times.

The Commission has made minor amendments to the NER to clarify how the negotiated framework applies for grid-scale storage and hybrids and reduces barriers to the uptake of negotiated shared transmission services.

What impact does the final rule have on existing storage agreements?

While existing storage will be transitioned to the new IRP participant category, the Commission's intent is that this will not change existing connection agreements, including network services and network charging arrangements. The Commission understands that many storage proponents have negotiated very low or zero network charges, and does not consider that any changes made in this rule change will alter those agreed charges.

What impact does the final rule have on new storage participants?

New transmission-connected storage participants will be able to negotiate arrangements with TNSPs in the same way as existing storage participants have. Importantly, under the rules, TNSPs are required to negotiate price and service levels that are consistent with those that have been negotiated for other transmission customers receiving the same service. In the case of storage participants, this could be zero.

Further work is needed on network charging issues for all large flexible loads

The Commission notes that the existing rules relating to prescribed transmission service tariffs were not designed for dynamic and price-responsive loads. The existing framework can accommodate these types of loads without imposing prescribed TUOS charges through the negotiated framework. However, there are broader issues still to be considered, including how to better send cost reflective price signals to incentivise efficient operation and investment in such technologies (including rewarding them when they provide a benefit). This is relevant for all large flexible loads (e.g. hydrogen) entering the market, not just storage.

Some stakeholders have indicated they will submit a rule change on this issue following the final determination. The Commission agrees this is the right approach to deal with this significant reform area. We anticipate a rule change request from participants that would allow us to consider these issues in more depth. The Commission will prioritise any such rule change request in the 2022-23 financial year.

What does the final rule do for storage connecting to the distribution network?

The final rule retains the current arrangements for distribution use of system (DUOS) charges for storage, with minor amendments.

DUOS charges relate to the conveyance of electricity from the transmission network, or generators embedded in the distribution network, to customers. DNSPs are required to develop a tariff structure statement outlining the proposed DUOS pricing structure for the next regulatory period and an indicative pricing schedule for each regulatory year.

In its rule change request, AEMO did not propose an exemption for storage connected at the distribution level from paying DUOS charges. Most stakeholders supported the current arrangements for DUOS. Not exempting storage from distribution charges creates a level playing field to invest in storage at the transmission and distribution network levels.

The Commission's final rule retains the current arrangements where the AER classifies services and approves the DNSP's tariff classes and levels in accordance with the pricing principles. It includes a minor amendment to make clear that, in the event of a dispute, the tariffs that a DNSP charges should reflect the efficient costs of providing those services. New storage participants who choose to connect to the distribution network will receive a direct control service tariff or a storage tariff trial option, where offered.

For information contact:

Director, **Kate Wild** kate.wild@aemc.gov.au

Senior Adviser, **Joel Albury** joel.aulbury@aemc.gov.au

Media enquiries: media@aemc.gov.au

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