



Retailer reliability obligation exemption for scheduled bi-directional units

The AEMC has made a more preferable draft rule

The Australian Energy Market Commission (AEMC or Commission) has decided to make a more preferable draft rule that exempts most storage assets (e.g., batteries and pumped hydro assets) from being liable entities under the Retailer Reliability Obligation (RRO). Such an exemption would improve the security of the national electricity market (NEM) during reliability-gap periods without compromising the policy intent of the RRO.

This draft decision responds to the rule change request submitted by Iberdrola, Neoen and Tesla (the proponents) seeking to exempt 'bi-directional units' (batteries) from being liable entities under the RRO. The rule change request also considered the option of exempting pumped hydro energy storage (PHES) assets from the RRO in addition to batteries.

Our draft rule exempts storage assets from liability under the RRO in specific scenarios

The draft more preferable rules specify how a storage asset should be registered or classified at their connection point for it to be an 'exempt market connection point'. This would be a newly defined term in the Rules that includes a series of assets (identified through their connection points to the grid) that would be exempt from liability under the RRO.

Load from exempt market connection points would not contribute to an entity's liable threshold (calculated at T-1) and would not be subject to compliance processes if the entity breaches the RRO.

For storage to be exempt from the RRO, it would need to be registered or classified as part of an 'Integrated Resource System' and fit the criteria established in new clause 4A.D.1A(b)-(d) of the draft rule. For example, a connection point of a stand-alone battery would be an exempt market connection point if it is classified as a market bi-directional unit with no other electricity consumption (besides that of the battery or its auxiliary load) measured at the connection point.

Importantly, entities continue to be liable under the RRO for all connection points that are not exempt market connection points, for instance, connection points for end-user loads.

The draft rule provides that where a battery shares its connection point (i.e. it is 'co-located') with another generating unit (such as a wind farm or a thermal generator), and there is no other load, the whole connection point is exempt from the RRO. Co-located storage with other load centres is exempt from the RRO if the total annual consumption at the connection point is less than 10GWh per annum. If, instead, the total consumption exceeds 10GWh per annum, the whole plant (including the co-located battery or storage asset) remains liable under the RRO.

Our draft determination was informed by stakeholder feedback and further analysis on storage behaviour

We received 19 submissions to the consultation paper. The vast majority of stakeholders supported the rule change. Further, ten out of 19 stakeholders supported excluding PHES, in addition to batteries, from RRO liability. However, some stakeholders expressed some concern about the rule change and a preference for keeping batteries liable under the RRO and adopting a procedural change (outside the Rules). We considered this in our

assessment of the policy options.

Our draft determination was also informed by further analysis of battery and PHES historical behaviour (charging vs discharging) during high-price periods, which tend to occur when reliability is tight. This analysis suggested that storage assets, if exempt from the RRO, would be very unlikely to operate in a way that poses risks to system reliability.

The draft rule contributes to achieving the national electricity objective (NEO)

The more preferable draft rule would contribute to achieving the NEO by:

- **Improving the security of the NEM during reliability gap periods** – Exempting storage assets from the RRO would remove the trade-off these assets bear between providing security services and incurring RRO penalties. A rule change exempting PHES assets, in addition to batteries, would unlock additional capacity for grid-supporting services during reliability-gap periods, with benefits for the whole power system.
- **Preventing risks of higher frequency control ancillary services (FCAS) prices and market costs during gap periods** – With storage assets exempt from the RRO, risks of Procurer of Last Resort (PoLR) costs or, alternatively, the cost of contracts bought to hedge RRO penalty risks, would not flow through into bids to the FCAS markets or through other forms of market costs (e.g. directions that the market operator would need to issue if power-system security is at risk).
- **Providing a low-cost and easy-to-implement solution to solve the security problem** – the draft rule would be simple to implement and can be commenced by the next potential contract position day (1 December 2024), as requested by the proponents and many stakeholders who submitted feedback to the consultation paper. The alternative option for a nuanced exemption of FCAS load from the RRO (which would have kept storage a liable entity) would have been impractical to implement and would not adequately solve the problems raised by the proponents.

We encourage stakeholders to provide feedback on the draft rule

Written submissions responding to this draft determination and draft rule must be lodged with the Commission by **10 October 2024**. There are other opportunities to engage with us, such as one-on-one discussions or industry briefing sessions. Please reach out to the project leader through the project page to schedule a discussion.

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