



Ms Tiffany O'Keefe
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

2 October 2024

RE: Review into electricity compensation frameworks

Dear Ms O'Keefe,

Tesla Motors Australia, Pty Ltd (Tesla) welcomes the opportunity to provide a response to the AEMC's review into electricity compensation frameworks draft report to improve the efficiency and effectiveness of the frameworks for directions, administered pricing, and market suspension compensation. Tesla's mission is to accelerate the transition to sustainable energy. Since the first big battery in 2017, Tesla has delivered and connected more Australian utility scale BESS projects than any other provider, providing extensive operational and market expertise.

Objectives (Draft Recommendation 1)

Tesla supports the Commission's investigation into streamlining complexities within existing frameworks and strengthening incentives for market participants. Battery technologies continue to demonstrate the capability to provide additional system services beyond in-market provision of energy and FCAS, including self-start, virtual inertia, voltage and reactive power stability, and restoration and re-synchronization services. Tesla is aligned with the AEMC's position that the directions frameworks should compensate storage assets fairly, noting the considerations brought up through the Improving Security Frameworks (ISF) rule change. Consequently, Tesla supports AEMC's draft recommendation 1 to introduce objectives to each of the compensation frameworks.

Methodology (Draft Recommendations 2 – 4)

Tesla strongly supports the AEMC's proposal that participants should be eligible to claim opportunity costs in each of the directions, administered pricing and market suspension compensation frameworks. Tesla further aligns with the AEMC's awareness that opportunity costs can vary across different technology types and operation methods. The complex nature of 'fuel costs' – or otherwise, the price of charging – for storage assets means that any framework for opportunity costs will need to consider the impact to the charging and discharging timings of storage assets when directed.

Tesla supports a shift from 90th percentile price to the VWAP approach for upfront directions compensation, in a move to reduce the claims for additional compensation and agrees that periods of direction should be excluded from this calculation. However, Tesla notes that a challenge in any proposed methodology is that periods of directions have the potential to be correlated with periods of significant price fluctuations and/or hitting price caps, meaning that the opportunity cost lost through directions will be far more significant than the VWAP.

Governance and Administration (Draft Recommendation 5 – 14)

Tesla broadly supports the AEMC's proposals to streamline the administrative process within the framework and other general administrative considerations. For draft recommendation 9, Tesla is generally aligned to compensation being assessed on an individual unit level but encourages further consideration for the treatment of hybrid or Integrated Resource Provider (IRP) projects that may have multiple DUIDs as one asset. Additionally, another potential edge case could be storage asset expansion, in which an asset may have the same TSC, asset owner, but a secondary DUID added to enable the expansion.

Other Considerations – Other Compensable Services

Tesla notes that despite the introduction of the ISF framework potentially reducing the need for AEMO to employ the directions framework for system security concerns, storage assets may be directed by AEMO to charge, discharge, and hold minimum state of charge (SoC levels) in Victoria and South Australia due to risk of minimum service load (MSL). The compensation for such requirements will fall under 'other compensable services' under clause 3.15.7A(g). There are significant opportunity costs for battery proponents under the current MSL proposal, causing substantial risk to the investment case for future storage projects in that jurisdiction. Tesla encourages collaboration between industry, AEMO, and the AEMC to align on fair and appropriate compensation within the directions framework for such requirements. This could be through ensuring opportunity cost is captured within 3.15.7A(g)(2) "loss of revenue" for holding minimum SoC, with a methodology agreed to by storage proponents and AEMO.

Tesla looks forward to continued engagement with the AEMC on this matter.

Kind regards,

Tesla Energy Policy Team | energypolicyau@tesla.com