

Your ref: ERC0389

10 October 2024

Ms Ilaria Barletta Project Leader, AEMC **Submitted online at:** <u>www.aemc.gov.au</u>

Dear Ms Barletta

Submission: Retailer reliability obligation exemption for scheduled bidirectional units

CS Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC's**) *Draft rule determination – Retailer reliability obligation exemption for scheduled bi-directional units* (**Draft Rule**).

About CS Energy

CS Energy is a proudly Queensland-owned and based energy company that provides power to some of our state's biggest industries and employers. We employ almost 600 people who live and work in the Queensland communities where we operate. CS Energy owns and operates the Kogan Creek and Callide B coal-fired power stations and has a 50% share in the Callide C station (which it also operates). CS Energy sells electricity into the National Electricity Market (**NEM**) from these power stations, as well as electricity generated by Gladstone Power Station for which CS Energy holds the trading rights.

CS Energy also provides retail electricity services to large commercial and industrial customers throughout Queensland and has a retail joint venture with Alinta Energy to support household and small business customers in South-East Queensland.

CS Energy is creating a more diverse portfolio of energy sources as we transition to a new energy future and is committed to supporting regional Queensland through the development of clean energy hubs at our existing power system sites as part of the Queensland Energy and Jobs Plan (**QEJP**).

Overall views

As the NEM transitions to a system with more variable renewable resources (**VRE**), energy storage will play an increasingly important and multifaceted role in providing both reliability and system security services. Reforms that enable the more efficient use of energy storage

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(including batteries, pumped-hydro and other emerging technologies) will be crucial in supporting this transition and the maintenance of system reliability and security.

In this context, CS Energy supports the AEMC's Draft Rule that exempts most energy storage assets from being liable entities under the Retailer Reliability Obligation (**RRO**). Such an exemption would likely reduce the costs of energy storage providing system security services without compromising the integrity of the RRO, which in turn lowers costs for consumers in the long-run.

Detailed comments

The current application of the RRO liability, which does not distinguish whether electricity imports are consumed by end-users or stored for export later, has led to unintended consequences. Such an application acts as a disincentive for storage assets to charge during reliability gap periods¹ and provide system security services later due to the costs/complexity in sourcing qualifying contracts to meet the RRO liability.

To address this issue, the AEMC proposes to exempt storage assets from RRO liability by introducing a new classification (i.e. exempted market connection points). These exempted market connection points include:

- Assets currently excluded from RRO liability, including market generating units and standalone power systems; and
- Storage assets proposed to be exempted, including market bi-directional units, pumped hydro assets and hybrid plants² under specific scenarios (i.e., where the connection point has no load (other than the load from storage assets and auxiliary load) or a total annual consumption less than 10 GWh).

CS Energy supports the above proposed approach as:

- It removes the trade-off between the provision of system security services and RRO compliance for storage assets. The existing RRO liability discourages storage assets from charging during reliability gap periods and providing system security services later as demand for these services (and hence load required to provide such services) is challenging to forecast and costly to incorporate into qualifying contracts. The proposed exemption of storage assets from RRO liability will remove such a trade-off and maintain the incentive to provide services.
- It removes the unnecessary regulatory costs that RRO liability imposes on storage assets, including:
 - Costs due to forgone revenue from not providing system security services or costs incurred to source qualifying contracts to meet RRO liability when providing services; and
 - Costs due to the need for additional monitoring and operational changes to manage the risk exposure of RRO liability.
- It reduces the market-wide costs for system security services by maintaining the incentive to provide services and invest in storage assets. This is achieved through the

¹ Under the RRO, reliability gap periods refer to the periods where future generation shortfall are projected.

² A hybrid plants is a facility where a storage asset shares the same connection point with another generator or load.

proposed exemption that removes the above trade-off and unnecessary costs imposed by the RRO liability on storage assets. As the NEM transitions to a system dominated by VRE, it will develop new energy and system security constraints, therefore it is essential that investment and operation of storage assets do not face unnecessary regulatory disincentives and costs when providing essential services to support this transition.

 It is more cost effective and administratively simpler to implement relative to the alternative option considered. CS Energy considers the alternative approach of only exempting load consumed for providing frequency control ancillary services (FCAS) to be technically challenging and impractical. This is because such an approach requires load consumed for the purpose of energy or FCAS to be separately identified within each 5-minute dispatch interval as storage assets can provide both fast FCAS and energy services within the same interval.

At this stage, the Australian Energy Market Operator (**AEMO**) assesses dispatch compliance at the end of every 5-minute interval but not within each interval. There is no existing technical framework that could feasibly separate load consumed for FCAS or energy services.

CS Energy also notes that proposed RRO liability exemption for storage assets is unlikely to increase the compliance costs for other participants but may instead reduce these costs. Specifically, the proposed exemption is:

- Unlikely to increase the exposure of other liable entities to breaches of the RRO given that storage assets are typically net generators (instead of net loads) during periods of high prices (i.e. when reliability gaps usually occur); and
- Likely to reduce unnecessary competition for qualifying contracts, which in turn would put downward pressure on contract prices.

If you would like to discuss this submission, please contact Wei Fang Lim, Market Regulatory Manager, at <u>wlim@csenergy.com.au</u> or on 0455 363 114.

Yours sincerely

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