

16 September 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Anna

Re: Integrating energy storage systems into the National Electricity Market options paper — ERC0280

CitiPower, Powercor and United Energy welcome the opportunity to respond to Australian Energy Market Commission's (AEMC) draft decision on integrating energy storage systems in the National Electricity Market (NEM).

We broadly support the AEMC's draft decision, including:

- the simplification of the existing registration process with the introduction of the Integrated Resource Provider (IRP) for all bi-directional technologies and hybrid facilities. This is a reasonable transitional step towards a single 'trader' category, envisaged under the Energy Security Board's (ESB) post-2025 NEM design final recommendations presented to Energy Ministers in July 2021
- clarifying performance standards for hybrid facilities are to be set at the connection point, with the flexibility for the standards to apply at the unit level when appropriate
- clarifying existing connection processes for distributor-led energy storage are appropriate.

However, further consideration should be given to:

- the registration categories for 'community batteries' prior to April 2023, to ensure community projects currently in the pipeline are able to participate in the frequency control ancillary services (FCAS) markets
- the distortion of competition that is likely to be exhibited by the continual inconsistencies in the application of distribution use of system (DUOS) and transmission use of system (TUOS) charges.

These are discussed below.

Community batteries should be allowed to register as Market Customer until April 2023

Community batteries are low voltage (LV) distribution connected energy storage units, typically sized between 0.1–0.6MW and located close to end-users on the street or near a local zone substation. The concept of community batteries is still relatively new, with a number of trials currently taking place across the NEM.

In July 2021, the Victorian Government announced funding for three community battery projects under their Neighbourhood Battery Initiative in Melbourne's centre, west and on Phillip Island, with all three targeted for commissioning by July 2022. From July 2022, the batteries are expected to test and trial various values streams from community storage, including participation in FCAS markets.

At least some of the planned projects are anticipated to be aggregated into the virtual power plants (VPP) of new and existing retailers for participation in FCAS markets, through a combination of small batteries registered as 'Market Customer'. The aggregation is expected to take place prior to April 2023.

However, under the draft determination the AEMC expects community batteries to be registered as small generation aggregators (SGA) until April 2023, which will prevent some community batteries from being aggregated into existing or new VPPs as Market Customers.

We therefore propose the AEMC update the final decision to allow community batteries to register as either a Market Customer or an SGA until April 2023. This will ensure the batteries envisaged to be aggregated to retailers' VPPs are able to do so.

Inconsistent application of DUOS and TUOS distorts market competition

In its draft determination the AEMC clarified the existing regulatory framework allows inconsistencies for transmission and distribution connected projects and how DUOS and TUOS are charged. This is because transmission network service providers (TNSP) can provide negotiated services and TUOS charges, while distributors cannot negotiate DUOS charges. Effectively, transmission projects can negotiate nil TUOS, while energy storage connecting to distribution networks must be charged DUOS as determined by the Australian Energy Regulator for our 2021-2026 regulatory period.

The inconsistency in the regulatory framework is a significant distortion to competition and is driving energy storage projects towards the transmission network, even in circumstances where it may not be efficient to do so. The current framework fails to recognise the advantages distributed storage can provide when located close to load, including avoided local augmentation, power quality improvements and market services. These localised benefits are inaccessible by transmission connected batteries.

The regulatory-driven distortion is exacerbated by the application of avoided TUOS payments that are not cost-reflective. Distributors are obligated to pay avoided TUOS for all generation from energy storage projects. However, AEMO's methodology for TUOS demand charges for Victoria does not reflect the current drivers of costs on the transmission network (i.e. costs from investment to connect renewables rather than demand-driven investment). This means energy storage providers connecting to the distribution network are facing mixed and inconsistent price signals that can be avoided if connecting to the transmission network.

In summary, the existing regulatory framework results in inefficient connections and provision of storage services. We strongly encourage the AEMC to reconsider a review of TUOS and DUOS charging to prevent permanent damage to energy storage markets.

Should you have any queries about this submission please do not hesitate to contact Sonja Lekovic on 0418 166 169 or slekovic@powercor.com.au.

Yours sincerely,



Renate Vogt
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CitiPower, Powercor and United Energy