

Explanatory Statement

Transmission Charges for Energy Storage

April 2022

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Introduction

Our engagement with stakeholders for the Australian Energy Market Operator (AEMO) transmission determination for the 2022–27 regulatory control period saw a request for greater clarity on transmission charging for energy storage systems (energy storage).

In response, this Explanatory Statement seeks to provide greater clarity on transmission charging arrangements for energy storage and transmission network customers more generally.

This Explanatory Statement is relevant across the National Electricity Market (NEM).

Background

We published our final decision on AEMO's transmission determination in April 2022.¹ Our transmission determination consists of a pricing methodology and negotiated transmission service criteria only. We do not make a revenue determination for AEMO.

Our final decision accepted AEMO's revised pricing methodology. AEMO's revised pricing methodology removed the policy to exempt energy storage from prices for prescribed transmission services, which AEMO proposed in its initial proposal.

Our final decision is consistent with the Australian Energy Market Commission's (AEMC) final rule determination on "Integrating energy storage systems into the NEM". The AEMC final determination did not exempt energy storage from transmission prices as such an exemption would not promote the National Electricity Objective.²

The AEMC stated the default is not that energy storage must pay transmission network charges.³ Rather, energy storage participants can choose the service they need, which in turn will determine the price(s) they pay.

To reduce investment uncertainty, stakeholders requested the AER publicly reaffirm the AEMC's determination that new energy storage would be able to negotiate with TNSPs in the same way as current participants to access the zero or low negotiated transmission charges currently paid by some existing storage projects.⁴

We consider the AEMC was clear on this point. However, we publish this Explanatory Statement in the interest of providing greater clarity to these stakeholders.

¹ AER, *Final decision: AEMO transmission determination 2022 to 2027*, April 2022.

² AEMC, *Integrating energy storage systems into the NEM, Rule determination*, 2 December 2021, p. 51.

³ AEMC, *Integrating energy storage systems into the NEM, Rule determination*, 2 December 2021 p. 52.

⁴ AusNet Services, *Letter Re: Australian Energy Market Operator (AEMO) determination 2022-27, Attachment – Access charges for negotiated storage*, 24 January 2022, p. 1; Clean Energy Council, *Email submission to the AER*, 13 January 2022, p. 1; CEC, *Request for AER clarification on NUOS charges*, 16 December 2021; Neoen, *Letter Re: Submission in response to the AER's draft determination AEMO transmission determination 2022 to 2027*, 24 January 2022, p. 1.

Statement: Transmission charges for energy storage

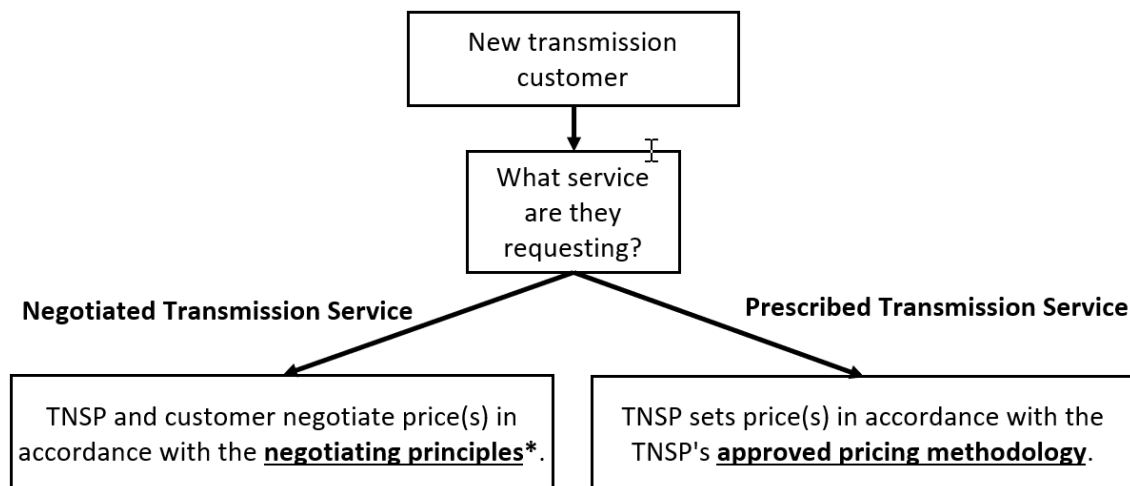
The AEMC’s final rule determination maintains the current arrangements whereby transmission-connected energy storage can choose the service they need. The chosen service, in turn, determines the type of price(s) the customer pays.

Broadly, transmission-connected energy storage can choose between:

- Prescribed transmission services
 - We set the revenues Transmission Network Services Providers (TNSPs) are allowed to recover for providing prescribed transmission services.
- Negotiated transmission services
 - We do not set the revenues TNSPs are allowed to recover for providing negotiated transmission services.

Figure 1 shows the general types of services energy storage can choose and the basis for setting prices for those services. Energy storage do not automatically pay the prices for prescribed transmission services, which the TNSP sets according to its approved pricing methodology.

Figure 1 Transmission services and prices available to energy storage



* Schedule 5.11 of the NER contains the negotiating principles for negotiated transmission services that apply to the NEM, except Victoria. Clause 6A.9.1 of version 109 of the NER contain the equivalent negotiating principles that apply in Victoria.⁵ We discuss the negotiating principles in the “Negotiated transmission services and prices” section.

⁵ The negotiated transmission service criteria (NTSC) that we approve for Victorian TNSPs give effect to these negotiating principles.

Prescribed transmission services and prices

The final rule enables energy storage proponents to request prescribed transmission services.⁶

In this case, the TNSP would determine the price(s) applicable to the energy storage proponent using the pricing methodology we approve for the TNSP.

The pricing methodology sets out the ‘formula, process or approach’ a TNSP uses to set prices for prescribed transmission services in accordance with chapter 6A of the NER. These prices in turn enable the TNSP to recover its allowed revenues for providing prescribed transmission services.

Negotiated transmission services and prices

The final rule determination clarifies that new transmission-connected energy storage are able to negotiate arrangements with TNSPs in the same way as existing energy storage did in previous years.

If the energy storage requests negotiated transmission services, it would negotiate the service(s) and price(s) with the TNSP. The energy storage and TNSP must negotiate according to the negotiating principles in the NER.⁷

Broadly, the negotiating principles state that the price for a negotiated transmission service should be based on the costs incurred in providing that service.⁸ The price for a negotiated transmission service should also enable the TNSP to recover the efficient costs of complying with all regulations in providing the service.⁹

One principle states the price an energy storage proponent pays must equal the price other transmission customers receiving the same service pay.¹⁰ Exceptions to this principle require a material difference in the costs of providing the service.¹¹ Figure 2 illustrates this principle.

⁶ These are: prescribed connection services (prescribed entry services and prescribed exit services); prescribed transmission use of system (TUOS) services; and prescribed common transmission services.

⁷ NER, schedule 5.11; NER version 109, clause 6A.9.1 (for Victoria, under NER, clause 11.98.8).

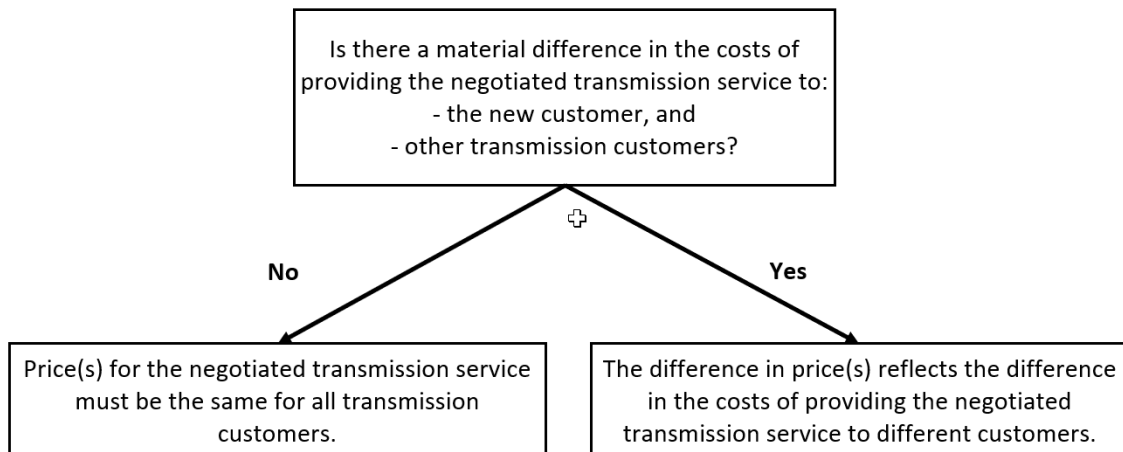
⁸ NER, schedule 5.11(1); NER version 109, clause 6A.9.1(1) (for Victoria, under NER, clause 11.98.8).

⁹ NER, schedule 5.11(7); NER version 109, clause 6A.9.1(7) (for Victoria, under NER, clause 11.98.8).

¹⁰ NER, schedule 5.11(5); NER version 109, clause 6A.9.1(5) (for Victoria, under NER, clause 11.98.8).

¹¹ NER, schedule 5.11(5); NER version 109, clause 6A.9.1(5) (for Victoria, under NER, clause 11.98.8).

Figure 2 Negotiating principles for Negotiated Transmission Services



We note the principle illustrated in Figure 2 does not operate in isolation. The TNSP and energy storage proponent must have regard to the other negotiating principles, as appropriate, when determining the terms and conditions and prices for a negotiated transmission service.¹²

We understand the price that existing energy storage proponents pay is zero or close to zero. The AEMC stated its final rule is not intended to alter those agreed charges.¹³

We trust this addresses the concerns that charging transmission prices to energy storage will increase whole-of-system costs to customers and lead to price shocks.

¹² A commercial arbitrator must also have regard to the negotiating principles when considering disputes relating to negotiated transmission services (NER, clause 5.5.5(b); NER version 109, clause 6A.30.4(b) (for Victoria, under NER, clause 11.98.8)).

¹³ AEMC, *Integrating Energy Storage Systems into the NEM, Rule determination*, 2 December 2021, p. vii; Final rule, clauses 11.145.5 and 11.145.14.

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
TNSP	Transmission network service provider
