

This market briefing document provides information to long duration storage (LDS) projects seeking a Long-Term Energy Service Agreement (LTESA) on how AEMO Services understands they will be charged Transmission Use of System (TUOS) charges. This document is not intended to provide advice, including with respect to any commercial negotiation with a transmission network service provider (TNSP).

### Briefing context



The *Energy Infrastructure Investment Act 2020* (EII Act) sets a target to construct 2 GW of LDS capacity by the end of 2029. The Q4 2022 tender has an indicative tender size for LDS LTESAs of 600MW.



Transmission use of system charges relate to the cost of shared network services to convey electricity from sources of generation connected to the transmission network to end consumers of electricity – market participants have highlighted to AEMO Services a degree of uncertainty when it comes to making assumptions on TUOS charges for their LTESA bid.



TUOS charges (at the regulated price level) will only be payable if an LDS LTESA project seeks access to a prescribed transmission service. However, LDS LTESA projects are expected to seek a negotiated transmission service which comes with a negotiated price, referred to in this note as 'negotiated transmission charges', and a negotiated standard of service.

### What you need to know

- ✓ Market precedent shows storage proponents negotiate very low or zero network charges with TNSPs under this framework.
- ✓ Given market precedent and the NER negotiation principles, AEMO Services expects LDS projects could achieve a negotiated transmission charge of zero provided that it is:
  - a scheduled load
  - customer of the network for the sole purpose of later generating electricity
  - not the beneficiary of a transmission reliability standard.
- ✓ In the updated draft LDS LTESA terms the risk of negotiated transmission charges is allocated to proponents as they are the best party to manage this risk



## Question and answers

### What are transmission use of system charges and who pays for them?

Transmission use of system charges relate to the cost of shared network services to convey electricity from sources of generation connected to the transmission network to end consumers of electricity. These services are paid for by Transmission Customers as defined in the National Electricity Rules (NER).<sup>1</sup>

### What are prescribed and negotiated transmission services?

When LDS LTESA projects seek connection to the transmission network, they can seek one of the following types of shared transmission services from the relevant TNSP:

- the prescribed transmission service, which:
  - has a regulated service standard, and
  - has a regulated price referred to as TUOS charges.
- a negotiated transmission service, which:
  - is at a standard above or below the standard of the prescribed transmission service that is negotiated with the TNSP, and
  - has a negotiated price, referred to in this paper as 'negotiated transmission charges'.

### Will TUOS charges be payable for LDS LTESA projects?

TUOS charges (at the regulated price level) will only be payable if an LDS LTESA project seeks access to the prescribed transmission service from the relevant TNSP. However, they are not expected to seek a prescribed transmission service, instead they are likely to seek negotiated transmission services comprising the following services:

- shared transmission service below the standard of the prescribed transmission service,<sup>2</sup> and
- a connection service, consisting of both an entry service and an exit service.

The negotiated transmission charges payable by an LDS LTESA project will depend on the outcome of the negotiation for the service between the project and the TNSP. This negotiation is governed by negotiating principles for negotiated transmission services in the National Electricity Rules (NER).

### What are the negotiating principles set out in the NER?

The NER provides a framework for the negotiation of shared transmission services, including a set of principles.<sup>3</sup> Principles relevant to the negotiation of the price for negotiated transmission service, at a lower standard than the prescribed service, include:

- The price should be based on the costs incurred in providing that service, determined in accordance with the principles and policies set out in the Cost Allocation Methodology for the relevant TNSP.
- If it is the provision of a shared transmission service that does not meet (and does not exceed) the network performance requirements, the differential between the price for that service and the price for the prescribed transmission service should reflect the amount of the TNSP's avoided cost of providing that (lower standard) of service.
- The price for a negotiated transmission service must be the same for all network users unless there is a material difference in the costs of providing the service to different users or classes of users.

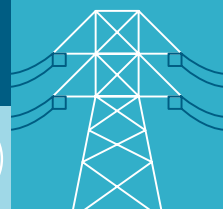
### What are the negotiated transmission charges likely to be for my project?

At a high level the negotiating principles in the NER require prices to reflect the incremental cost of providing the service. For LDS LTESA projects it is likely that such incremental costs may be lower than the costs of providing the prescribed transmission service or zero. For example, the LDS operator may agree with the TNSP that the TNSP will not plan the network to achieve a specified level of reliability at the project's connection point, consequently receiving a lower standard of shared transmission service than that would be provided under a prescribed transmission service.

<sup>1</sup> The NER defines Transmission Customer as a Customer, Non-Registered Customer or Distribution Network Service Provider having a connection point with a transmission network.

<sup>2</sup> That is, this service is not required to meet all the network performance requirements set out in Schedule 55.1 of the NER.

<sup>3</sup> See NER clause 5.2A.6 and Schedule 5.11.



AEMO Services understands that market precedent to date has seen storage proponents negotiate very low or zero network charges with TNSPs.<sup>4</sup> AEMO Services expects LDS projects could achieve a negotiated transmission charge of zero provided that it is:

- Classified as a scheduled load with AEMO and therefore will only consume from the grid in accordance with dispatch instructions received from AEMO. This is important as it means that during high demand periods AEMO can constrain the scheduled load from charging and exacerbating the high demand event.
- A scheduled load and customer of the network for the sole purpose of later generating energy as a storage facility.
- Not the beneficiary of a transmission reliability standard set at the connection point. For example, it does not have the benefit of jurisdictional reliability standards that require arrangements to be in place to support continued supply of electricity to its connection point if the relevant part of the transmission network fails or unserved energy targets at its connection point.

### Will my project be able to increase the agreed LDS LTESA annuity if negotiated charges are applied?

**No.** AEMO Services intends to allocate the risk of negotiated transmission charges to LDS LTESA proponents as they are the best party to manage this risk. LTESA operators have sufficient leverage to achieve a low or zero charge outcome given market precedent and the negotiating principles set in the NER. It is important that projects are responsible for managing their locational decisions and should maintain full incentives to negotiate strongly to minimise these costs.

This is a change from the draft LDS LTESA term sheet which included a TUOS Claim clause (i.e., a risk sharing mechanism between LTESA Operator and Scheme Financial Vehicle), which AEMO Services does not intend to include in the full form LDS LTESA that will be released to the market.

### Important notice:

The contents of this document are for information purposes only. This document is not intended to provide any advice or imply any recommendation or opinion constituting advice. This document may include assumptions about future policy outcomes and generalisations. It may not include important qualifications, details or legal requirements. It may not include changes since the date of publication. AEMO Services Limited (ABN 59 651 198 364) does not guarantee the accuracy, currency or completeness of any information contained in this document and (to the maximum extent permitted by law) will not accept responsibility for any loss caused by reliance on it. The information in this document is not a substitute for obtaining professional advice.

<sup>4</sup> Fact sheet — Network use of system charges for storage (accessible [here](#)), Australian Energy Market Commission, December 2021.