



# Distribution Ring-fencing Guideline Review

**Targeted stakeholder discussion**

26 February and 3 March 2021

[aer.gov.au](http://aer.gov.au)

# Agenda

- Welcome (AER) ~ 20 mins
- Overview of Ring-fencing (AER) ~ 10 mins
- Stand Alone Power Systems discussion (All) ~ 30 mins
- Energy Storage Devices discussion (All) ~ 1 hour

# Timeline

Milestone	Date
<a href="#">Review initiation workshop slides</a>	August 2019
COVID- 19 delay	
<a href="#">Issues paper</a>	November 2020
Issues paper <a href="#">submissions</a> closed	December 2020
Targeted stakeholder discussions	February & March 2021
Draft decision	Late April 2021
Public Forum	May 2021
Final Decision	August 2021
Transmission Guideline review (recommencement)	September 2021

## Overview of Ring-fencing

- High level purpose is to create a level playing field, promote competition and promote the National Electricity Objective.
- Distribution Guideline creates legal and functional separation of the provision of regulated services from other services (by DNSP or affiliate).
- November issues paper discussed Stand Alone Power Systems (SAPS), Energy Storage Devices (ESD) and other minor amendments.

# SAPS background

## Issues paper:

- Revised legislation will allow DNSPs to switch customers to SAPS.
- Third parties may be unwilling or not available to provide the generation component.
- There may be benefit from a DNSP fulfilling this role.

## Submissions to issues paper:

- Generally supported greater flexibility to allow DNSPs to provide generation as part of SAPS.
- DNSPs indicated about 4k sites across the National Electricity Market (NEM), predominately in rural NSW and QLD

## SAPS preliminary view

### Preliminary AER view:

- Broad exemption based on a generation revenue cap (different for rural and urban DNSPs) for a 3 year period, with regular detailed reporting.
- Future review to re-examine the framework, based on the known examples of DNSP generation services.
- SAPS rolled out in these 3 years would be ‘grandfathered’.

## SAPS – Targeted Questions for discussion

- What reporting detail would assist the competitive market to grow and potentially fulfil these services in the future?
- Are there likely to be more SAPS than the 4k identified? How certain are these 4k and when will they be rolled out?
- What average size SAPS are DNSPs considering? Small to medium (e.g. 20MW)?

# Energy Storage Devices (ESD) background

## Issues paper:

- ESDs currently used by DNSPs to support the network, but not allowed to provide un-regulated services.
- Where a DNSP uses ESD to provide services beyond network purposes there may be concerns, such as cross subsidisation, which could impact competition and ultimately impede the long term interest of consumers.

## Submissions on issues paper:

- Divided on if DNSPs should be involved in using ESD to provide services beyond network services.



## ESD preliminary view

### Preliminary AER view:

- Encourage deployment of ESDs when cost effective for network needs.
- Where ESDs are deployed we want to realise consumer benefits, while also promoting competition.
- Need to prevent cross-subsidisation.
- Potential to continue to realise benefits using a waiver, with more detailed guidance from the AER on the types of waiver applications that will be approved.
- More information about the deployment of ESDs will inform how we evolve the Guideline over time.

## ESD – Targeted Questions for discussion

- DNSPs have stated that third party providers aren't likely to meet the network battery needs.
  - Are there difficulties procuring network services from third-party providers?
  - What information can DNSPs provide to encourage third party providers to offer battery services that meet network needs also?
- Some stakeholders have submitted that competition will be limited by allowing DNSPs to participate in the market.
  - What concerns might a potential market participant / investor have if a DNSP was able to own and operate an ESD? E.g.: concerns about discrimination in connection arrangements, or charges, or the way the network is operated?
  - Would the AER's preliminary views address these concerns, or would potential market participant investors still be reluctant to invest in ESDs?

## ESD – Targeted Questions for discussion

- How can we sufficiently address cross subsidisation?
- How can we ensure that regulated customers benefit from any ‘other’ uses of regulated assets?
- What conditions should we place on a waiver?
- How can we make the waiver process easier while providing certainty/checks to the market in the immediate term?

## Contact details

- [AERringfencing@aer.gov.au](mailto:AERringfencing@aer.gov.au)

# Appendix A: legal and functional separation

