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Ring-fencing class waiver for DNSPs providing RERT

Flow Power submission

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About Flow Power

Flow Power is an electricity retailer that works with energy customers throughout the National Electricity Market (NEM). Together with our customers, Flow Power is committed to our vision of creating Australia's renewable future. We empower customers to take meaningful action. By providing energy knowledge and innovative technology, we are delivering smarter ways to connect customers to clean energy to make our renewable future a reality. We provide our customers with:

- Engineering support, access to live data and transparent retail tariffs that reward demand flexibility and encourage electricity usage at times of plentiful renewable output.
- Hardware solutions that equip customers with greater information, visibility and control over energy use.
- Access to renewable energy, either through distributed solar and storage installed on site, or through a virtual generation agreement with utility-scale wind and solar farms

We believe that by equipping customers with these tools, we can lower costs for all energy users and support the transition to a renewable future.

Overview

Flow Power welcomes the opportunity to respond to the AER's initiation notice. We appreciate the important role the Reliability and Emergency Reserve Trader (RERT) has in maintaining reliability of the power system, particularly in summer months. We also appreciate AEMO may have concerns about whether there is sufficient RERT resources available. However, this truncated consultation process raises significant technical and economic policy questions. The impacts of voltage tapping to provide demand reductions will impact consumers, technology vendors and other RERT participants. Regardless of the decision made by the AER, this consultation period seems unnecessarily short and is unlikely to provide sufficient opportunities to all impacted stakeholders to respond, particularly given the proposed duration of the class waiver.

The key points we would like to make regarding the AER's initiation notice are:

- **This waiver risks a number of unintended consequences**. By using voltage tapping to provide a demand reduction, DNSPs receive a benefit (as unregulated revenue) for decreasing voltage levels when requested by AEMO. The reduction in voltage (assuming it stays within technical

bounds) has no negative impact on the DNSP – instead, the demand reduction is spread across customers who see a lower network voltage.

By paying DNSPs for this service, it creates an incentive for DNSPs to maximise the delta between the initial and the reduced voltage levels. In order to maximise this delta, DNSPs are incentivised to increase network voltages in anticipation of a RERT event. Again, assuming the distribution of voltages within the network stay within technical requirements, there is no cost or disincentive for DNSPs to raise this voltage level.

This risks creating a situation where DNSPs raise network voltages in anticipation of a RERT event to increase the available headroom for subsequently reducing voltages. This would result in consumers paying DNSPs for demand reductions from a baseline that was inflated by these perverse incentives.

+ **Allowing regulated monopolies to participate in the RERT will reduce competition.** We think participation in the RERT by DNSPs would create an unequal playing field between providers. The AER's initiation notice suggests that allowing DNSPs to participate in the RERT should increase competition. However, this would assume no impact on the willingness of non-monopoly participants to continue providing RERT when competing against DNSPs. By providing a waiver from the ring-fencing guidelines, DNSPs will have several advantages when providing RERT, including:

  – cross-subsidisation from network assets and costs already covered in revenue determination
  – no requirements to compensate participating customers for reducing the network voltage.

  However, it is likely to reduce the willingness of aggregators and retailers to develop RERT portfolios.

  In addition, there are multiple technology vendors that work with distributed energy resources, including coordinated inverter controls or utilisation of smart meters. The AER should proactively seek to engage with these vendors to understand how this proposal may detract from their plans to offer RERT services.

  Providing a class waiver for five years allowing regulated monopolies to participate in a competitive market is a significant policy decision. The AER should seek more information on how this might impact the development of a competitive market for RERT services before making such a long-lasting decision.

+ **AER should consider whether this service is more appropriately provided as a regulated service.** There is significant overlap between the technology proposed to be covered under the class waiver and the technological capabilities DNSPs are likely to be developing to comply with the technical specifications of operating the distribution network. The AER should seek more information to understand whether the incentives provided through a class waiver are truly necessary to enable to DNSPs to develop these technological capabilities.

Most of the benefits of voltage tapping will be used for DNSPs to comply with technical requirements and finding more efficient methods for supplying end-users. DNSPs will need greater visibility of network voltages to manage higher levels of distributed solar and other DER. Voltage tapping could have a role to play as DNSPs face greater challenges to keep distribution voltages within allowable ranges. If it is proven to not have detrimental impacts on consumers, voltage tapping could also be employed by DNSPs to lop peak demand in parts of the network, deferring network augmentation costs.

Given DNSPs will develop this capability in the absence of being able to participate in the RERT, it would be more appropriate for DNSPs to offer this capability to AEMO to increase reserves during a tight-supply demand balance as a regulated service. It could be requested by AEMO prior to employing the RERT and involuntary load shedding to maintain the security of the power system.

Therefore, we consider it more appropriate that DNSPs work with the AER to recover the costs of developing these operational capabilities through revenue determinations. The AER should not grant an immediate waiver for five years without exploring alternative approaches, such as having this service provided as a regulated service by DNSPs. This also avoids some of unintended consequences described below.

- **The proposed length of the class waiver is too long.** The consultation period for this initiation notice is too short to decide whether a five-year class waiver should be granted. If a waiver must to be granted to DNSPs due to concerns about the upcoming summer, a short-term waiver could be offered so that a more fulsome consultation can be undertaken next year. This would allow for a more thorough investigation of the potential impacts on the competitive market for RERT services and the appropriate duration of a class waiver, if one is to be granted. In addition, the AER should consider whether it is more appropriate for a waiver to provided to a subset of DNSPs with demonstrable capabilities to provide RERT services, instead of a class waiver.
- **More transparency should be provided.** If a class waiver is approved, the market should be provided with significant transparency regarding the provision and costs of DNSP-provided RERT. In our view, the real costs of providing RERT from voltage management will be cross-subsidised by assets paid for by consumers. Given this, it is reasonable to expect DNSPs to publish information about what they have been paid to provide RERT services. This will assist stakeholders in assessing whether DNSPs have indeed provided services cheaply, and would increase pressure on DNSPs to reduce total costs to consumers.
- **Greater consumer protections should be imposed.** The proposed waiver requires DNSPs to notify the AER if they receive a complaint they believe is associated with the provision of RERT. This is a very low bar for consumer protections, given DNSPs will be making unregulated revenue using assets consumers have paid for. Instead, the AER should expect a higher standard from DNSPs. At a minimum, DNSPs should be required to notify all customers in impacted areas of the network in advance of undertaking voltage tapping, and provide

customers with the clear instructions for contacting their DNSP if they become aware of any adverse impact.

If you have any queries about this submission, please contact me on [redacted] or at [redacted].

Yours sincerely,

Declan Kelly

Regulatory Policy and Corporate Affairs Manager

Flow Power