

# Initiation notice – Assessment for granting a distribution ring-fencing class waiver for Distribution Network Service Providers to provide contracted RERT services via voltage management to AEMO

The AER is considering granting a class waiver under the AER's electricity distribution ring-fencing guideline that would permit all electricity Distribution Network Service Providers (DNSPs) to contract with AEMO to provide Reliability and Emergency Reserve Trader (RERT) services via voltage management. Before granting a class waiver under section 5.3A of the guideline, we invite submissions from stakeholders by 16 November 2022.

## Background

The Australian Energy Regulator (AER) is the regulator for electricity and gas networks in every state and territory in Australia except Western Australia.

Ring-fencing, in relation to distribution network service providers (DNSPs), refers to the separation of distribution services provided by a DNSP from the provision of unregulated or contestable services by a DNSP, or an affiliated entity. Ring-fencing operates to separate regulated activities from competitive business activities to support competitive markets. The electricity distribution ring-fencing guideline (the guideline) prevents DNSPs discriminating in contestable markets in favour of themselves or affiliated entities.

## What is RERT?

Reliability and Emergency Reserve Trader (RERT) is a function conferred on the Australian Energy Market Operator (AEMO) to maintain power system reliability and system security. AEMO maintains a panel of RERT providers which allows AEMO to run an expedited tender process as technical details are pre-agreed. It is important that AEMO has access to various RERT panel members as required, to safeguard the security of the energy market during 'Lack of Reserve' events.

## Increasing need for RERT

AEMO has identified an increasing need for the use of RERT services in the future. This is particularly necessary in light of the forecast reliability gaps for all mainland regions from 2022-23 to 2031-32.<sup>1</sup> DNSPs have the ability to provide an additional form of efficient and low-cost reserve services via voltage management. On 29 September 2022, AEMO wrote to the AER advising that the class waiver is urgently required to allow DNSPs to contract with AEMO prior to the peak summer months of January, February and March 2022.

## Requirement for class waiver

We observe that DNSPs would require a waiver from clause 4.2 of the guideline to provide RERT services via voltage management. Clause 4.2 of the guideline requires functional separation (separation of offices, staff, branding and promotions) between the DNSP's provision of distribution services from the DNSP's provision of contestable RERT services. We understand that functional separation of a DNSP in this case would not be practically possible due to the nature of the equipment used to provide the service.

We understand that only DNSPs currently have the capability to provide RERT services via voltage management at scale. As a result, there is limited or no opportunity for DNSPs to discriminate in favour of themselves in providing RERT services via voltage management. However, **we are interested to hear from stakeholders on whether any other market participants have the ability to provide RERT services via voltage management.** We note that any revenue received from DNSPs in the provision of RERT services will be unregulated revenue. This means that DNSPs will be using regulated electricity supply assets to earn unregulated revenue. Under the Shared Asset Guideline, a DNSP's annual revenue requirement will only be reduced if the average unregulated revenue earned during a regulatory control period through the use of shared assets exceeds 1 per cent of the DNSP's total annual regulated revenue requirement.

Allowing DNSPs to contract with AEMO to provide contracted RERT services via voltage management will increase the number of providers available to the RERT panel. This should increase competition in the provision of RERT services which may help to both improve reliability and reduce RERT charges which are passed on to consumers through electricity bills.

## Class waiver proposal

Noting the above, the AER is considering granting a class waiver on the following terms:

<sup>1</sup> AEMO, [2022 Electricity Statement of Opportunities](#).

1. **Obligations to be waived:** functional separation of offices, staff, branding and promotions under clause 4.2 of the guideline.
2. **Class that the waiver will apply to:**
  - a. DNSPs that negotiate with AEMO to enter into, and/or enter into, a RERT Panel Agreement with AEMO for the provision of short notice reserve via voltage management pursuant to rule 3.20.2 of the National Electricity Rules and clause 6 of the RERT Guidelines. DNSPs will no longer qualify for the class waiver after the expiration of the RERT Panel Agreement entered into with AEMO (until the DNSP commences negotiation to enter into a further RERT Panel Agreement with AEMO).
  - b. DNSPs that meet the precondition of providing the AER with a copy of the RERT Panel Agreement entered into with AEMO. The agreement should be emailed to [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au) within 20 business days of the agreement being finalised. The AER will treat this information as commercially sensitive and note our policies regarding information privacy and disclosure of information.
3. **Conditions of class waiver:**
  - a. DNSPs participating in the class waiver must provide the AER with an annual performance report detailing:
    - i. the number of instances the DNSP provided short notice reserve to AEMO in a financial year (i.e. the number of times the reserve was activated by AEMO);
    - ii. the volume (MW) of reserve provided in each instance that the DNSP provided short notice reserve to AEMO; and
    - iii. the revenue received for each instance that the DNSP provided short notice reserve to AEMO.
  - b. DNSPs participating in the class waiver must notify the AER if the DNSP receives any customer complaints relating to the quality of supply that the DNSP believes may be associated with the provision of RERT services via voltage management.
4. **Period of class waiver:** 5 years. The AER has the ability to review the class waiver within the five year period pursuant to clause 5.3A.1 of the guideline.

## Stakeholder involvement

Before deciding to grant a class waiver, we seek feedback from stakeholders, especially those who consider they may be adversely affected by DNSPs being permitted to contract with AEMO to provide RERT services via voltage management.

**The AER will be hosting a virtual feedback session on 9 November 2022 for one hour from 11am to 12pm (AEDT) / 10am to 11am (AEST). This session will provide an opportunity for stakeholders to attend and provide verbal feedback on the potential class waiver. To register for the feedback session, please send a request to [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au) by close of business, Tuesday 8 November 2022. Stakeholders are also invited to provide written submissions to [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au) by COB 16 November 2022.** We will consider all verbal feedback and written submissions and provide a statement of reasons with our decision.

## Timing

The proposed timing for our decision is:

2 November 2022	Initiation notice
9 November 2022	Virtual feedback session
16 November 2022	Submissions close
13 December 2022	AER issues decision and statement of reasons
April 2028	Expiry of class waiver

## For more information

Information on the AER's role in distribution ring-fencing is available on our website: [www.aer.gov.au](http://www.aer.gov.au).

Any ring-fencing related queries should be sent to [AERringfencing@ aer.gov.au](mailto:AERringfencing@ aer.gov.au).