

Contact Officer: Jacquie Shannon
Contact Phone: [REDACTED]

8 April 2024

Ms Trudy Fraser
A/Executive General Manager Regulation
Energy Queensland

Sent by email to: [REDACTED]

Dear Ms Fraser

Re: Ergon Energy ring-fencing waiver application for MIST services

On 25 July 2023 Ergon Energy submitted an application for a waiver from the obligations in clauses 3.1(b) and 4.2.3 of the Ring-fencing Guideline for Electricity Distribution (the Guideline) with respect to its Microgrid and Isolated Systems Test (MIST) facility.

On 3 November 2023 the AER granted a limited interim waiver to Ergon Energy for clauses 3.1(b) and 4.2.3 of the Guideline for the MIST facility. That limited interim waiver was limited to the use of services from the MIST facility by recipients of funding grants under the:

- Queensland Government's Microgrid Pilot Fund (the Microgrid Fund) to support delivery of the Microgrid Fund as required by the Queensland Government
- Australian Government's Regional and Remote Communities Reliability Fund - Microgrids (the Reliability Fund).

The interim waiver was granted under clause 5.3.3 of the Guideline. As we explained in our letter of 3 November 2023, in reaching that decision we considered the likely costs and benefits of a limited interim waiver. In particular, we concluded that a limited interim waiver would be unlikely to negatively impact on competition for equivalent services as there are only a small number of potential users related to the Microgrid Fund and the Reliability Fund.

The limited interim waiver was to remain in force until we made a further decision to grant or refuse to grant the waiver requested by Ergon Energy. We advised that we would undertake public consultation and seek submissions from stakeholders before making a decision on the full waiver application

Ergon Energy's proposal

Ergon Energy is seeking a waiver to enable it to provide contestable services from its MIST facility to other entities across Australia who have specific commercial or research interests in the development of fringe-of-grid network supply, standalone powers systems and microgrids. It asked for a waiver to be granted until 30 June 2035

AER assessment and decision

Under the Guideline clause 5.3.2, the AER must have regard to whether a waiver would support the National Electricity Objective (NEO), the potential for cross-subsidisation and discrimination if a waiver is granted and whether the costs of compliance with the Guideline outweigh the benefit to consumers of that compliance, including in relation to any benefits for competition.

We consider that the services that can be provided by the MIST facility are able to contribute to the energy transition and the growth of renewable, distributed generation in line with the NEO. In addition, we consider that the potential for harm to competition from a waiver for the MIST facility is limited in the current circumstances.

Ergon Energy has advised that it will take appropriate measures to prevent any cross-subsidisation in favour of users of the MIST facility. Finally, the prohibition against discrimination in favour of Ergon Energy or any related entity in clause 4.1 of the Guideline cannot be waived and would remain in force.

We have decided to grant a waiver from Guideline clauses 3.1(b) (legal separation) and 4.2.3 (shared branding) for Ergon Energy to lease the MIST simulator and its services to other entities until 30 June 2030. A waiver of this length is consistent with the form of waiver the AER may grant as set out in clause 5.3.4 of the Guideline. It also allows for an earlier opportunity to reassess any impacts on competition should other providers of relevant services enter the market in the future.

For clarity, this waiver also includes leasing the MIST simulator for the purposes of the Microgrid Fund and the Reliability Fund, as permitted by the interim waiver. This decision replaces the interim waiver granted on 3 November 2023.

If you would like to discuss this matter further, or have any questions, please contact Jacquie Shannon, Acting General Manager, Strategic Policy and Energy Systems Innovation, on [REDACTED] or [AERringfencing@aer.gov.au](mailto:AERringfencing@ aer.gov.au) in the first instance.

Yours sincerely



Jarrold Ball
Board Member