Consultation Paper

Reliability Emergency Reserve Trader Class Waiver

2024

AUSTRALIAN ENERGY REGULATOR

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1. Introduction

Ring-fencing of 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. The objective of ring-fencing is to provide a regulatory framework that promotes the development of competitive markets. It does this by providing a level playing field for third party providers in new and existing markets for contestable services. Effective ring-fencing arrangements are an important mechanism for promoting increased choice for consumers and more competitive outcomes in markets for energy services.

The Ring-fencing guideline (electricity distribution) ('the guideline') governs the extent to which DNSPs can provide contestable services.[1] The aim of ring-fencing is to prevent cross-subsidisation and discriminatory behaviour by DNSPs through a range of controls. In particular, the guideline stipulates obligations on DNSPs to identify and separate the costs and business activities of delivering regulated network services from the delivery of other services. There are instances where the Australian Energy Regulator (AER) will consider waivers to the obligations set out in the guideline. The considerations for assessing waiver applications are set out in section 5 of the guideline.

In December 2022, the AER granted a ring-fencing class waiver that allows DNSPs to contract and participate in the provision of Reliability Emergency Reserve Trader (RERT) services via voltage management at the request of the Australian Energy Market Operator (AEMO) ('the class waiver').[2] The class waiver permits DNSPs to provide these services and not comply with clause 4.2 of the guideline (functional separation). This class waiver is due to expire on 15 April 2025.

The AER's 2022 decision to grant the class waiver, stated:

> *We consider the class waiver is necessary to meet AEMO's needs to procure sufficient RERT to address forecast reliability gaps. We also consider that consumers will benefit from allowing AEMO to procure low cost RERT services from DNSPs as this will result in lower RERT charges passed on to consumers. However, the AER is concerned by the potential long-term impacts of a class waiver that have been raised by stakeholders. Therefore, the AER has reduced the timeframe of the waiver from 5 years to 28 months. The AER will facilitate a longer consultation period prior to a variation or extension of this class waiver, assuming the need remains.*[3]

Before the class waiver expires, the AER is seeking feedback from stakeholders on whether there is a case for the class waiver to be extended. If the waiver is not extended, any DNSPs seeking to provide RERT services via voltage management after 15 April 2025 would need to apply to the AER for an individual waiver.

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[1] AER, The ring-fencing guideline (electricity distribution), 3 November 2021.

[2] AER, Reliability and Emergency Reserve Trader (RERT) via voltage management – ring-fencing class waiver, 14 December 2022.

[3] AER, Reliability and Emergency Reserve Trader (RERT) via voltage management – ring-fencing class waiver.

The AER would like to consider the risks and benefits of DNSPs performing short notice RERT via voltage management, both in the near term and the longer term, as the electricity system continues to evolve. In particular, we seek evidence from stakeholders to understand:

- Whether the RERT markets have changed since 2022 and the nature of any changes.
- Whether there have been developments in the broader market and technologies for voltage management and short notice RERT services since 2022.
- The likely nature and requirements of the future RERT market, including the role of DNSPs.
- The options for provision of RERT services, including but not only via voltage management.
- DNSPs' current and future appetite to participate in short notice RERT markets, including the reasons behind the limited use of the existing waiver.
- How the AER should assess the scope of the RERT market, including whether it should be for the provision of RERT services generally or for particular services such as voltage management, and whether assessment at a sub-regional or locational level or National Energy Market (NEM) wide level is appropriate.
- Considerations of factors under the guideline for RERT services.
- Whether the case for a ring-fencing class waiver has changed since 2022 and, if there is still a case for a class waiver or if individual waivers are more appropriate.

Stakeholder perspectives on these issues, will allow the us to understand more about the role of DNSPs in the provision of current and future RERT services, and the impacts on customers of DNSPs providing these services. These issues and our specific questions for consultation are discussed in detail in section 3 below.

2. Background

RERT is a function conferred on the Australian Energy Market Operator (AEMO) to maintain power system reliability and system security.[4] RERT is an out-of-market backstop, typically comprising demand response from customers or diesel peaking electricity generation plants. AEMO can draw on contracts with these parties for the provision of additional reserves by modifying demand where there is a risk of supply insufficiency or a lack of reserves.

In September 2022, AEMO requested that the AER grant a class waiver from clause 4.2 of the guideline, in order to allow DNSPs to participate in the provision of short notice RERT services via voltage management. Short notice RERT services are those that AEMO can draw upon with between 3 hours and 7 days' notice. DNSPs can perform RERT via voltage management in low voltage networks, which reduces demand by changing the electricity drawn from the grid, for the period it is in place. Voltage management can be performed using equipment installed in substations and the associated local and remote controller systems.[5] AEMO stated that it urgently required contracting of DNSPs for these short notice RERT services before the peak demand months in January-March 2023. At that time AEMO was forecasting reliability gaps in all mainland regions over the next 10 years.

Due to the urgent nature of AEMO's request, the AER conducted a short, two-week consultation in November 2022 and granted the class waiver in December 2022 for a 28-month period.

2.1 Use of the class waiver

The class waiver allows multiple DNSPs to register with AEMO for the provision of RERT services via voltage management, however only one DNSP has joined the RERT panel since the class waiver was granted. Additionally, wholesale market conditions over the last 2 years have meant that this RERT capacity (in relation to the single DNSP contracted by AEMO) has not been used. This means the AER has not gathered further information or data on any impacts from DNSPs' participation in the RERT market, including on the amount of unregulated revenue, consumer impacts and impacts to competition.

2.2 Requirements under the guideline

The guideline requires that when the AER is considering granting a ring-fencing waiver, we have regard to the National Electricity Objective (NEO), potential impacts on competition, cross-subsidisation and discrimination, and whether the benefits to customers of DNSPs complying with ring-fencing obligations outweigh the costs. In doing so, the AER needs to identify the market(s) in which the service is provided, and in which the impacts may occur.

The guideline does not require the AER to take any action prior to, or after, the expiry of the class waiver. However, the AER considers it important to consult with stakeholders to gather

[4] RERT Guidelines, AEMC provision 4.2 "AEMO may dispatch or activate RERT for power system security purposes if emergency reserves have already been procured in accordance with clause 3.20.3 of the National Energy Rules (NER) but may not procure RERT for the purpose of meeting power system security requirements."

[5] The Australian Energy Market Operator (AEMO), *Letter to the AER* [unpublished], 26 September 2022

information on the latest developments in the RERT market, understand the role of DNSPs in the market, and reassess the issues raised by stakeholders during 2022 consultation.

As part of this consultation, the AER is interested to learn stakeholders' views on the likely longer-term need for RERT services, and whether DNSPs' presence in the short notice RERT market is likely to impede market growth or hamper competition and create barriers to entry for other RERT participants.

2.3 AEMO's position on the class waiver

AEMO formally advised the AER on 6 June 2024 that it does not support extending the class waiver and noted that:

- The granting of the class waiver has not led to an increase in interest from DNSPs seeking to provide RERT services.
- AEMO considers that DNSPs wishing to provide RERT through voltage management should perform their own assessments (in consultation with the AER where required) of whether they can provide RERT and comply with the ring-fencing guideline, and seek individual waivers if required; this would require less time and fewer resources than an extension of the existing class waiver.
- If an individual waiver is required, then the AER can place bespoke conditions on the waiver to reflect the DNSPs specific requirements and arrangements.[6]

[6] AEMO, *Letter to the AER* [unpublished], 6 June 2024

3. Key issues

3.1 Future RERT market

The long-term reliability outlook has improved since 2022 and it is possible that this may lead to less reliance on RERT in future.[7] In addition, government programs and market design work are focussed on driving additional sources of supply and investment signals in the medium to long term. New technology may increase the availability of RERT from other providers via the orchestration of consumer energy resources (discussed further in section 3.4). We are interested in understanding stakeholder views on the future role for RERT in this context. We will use these insights not only to reflect upon the merits of this class waiver but to inform our thinking on the evolving market and how regulatory design should adapt with it.

Question 1: What are the forward-looking trends on reliability reserve needs and how are various RERT markets likely to evolve over the next 10-year period, particularly noting close of coal fired power stations by 2040[8]?

3.2 Understanding limited use of class waiver

While only one DNSP has taken advantage of the class waiver to date, others have expressed an interest in participating in RERT markets. As part of the current revenue reset processes, the Victorian DNSPs asked the AER to reclassify RERT services as standard control services which would remove the ring-fencing obligations relating to them[9]. However, the AER decided not to reclassify RERT services and for DNSPs to rely on the ring-fencing framework as it provides regulatory oversight of DNSPs' activities in contestable markets[10]. The AER also indicated we are open to networks developing new revenue sharing mechanisms to allocate the unregulated revenues to customers. Both service classification and revenue sharing mechanisms are critical parts of the future assessment of RERT waiver applications, whether the AER extends the class waiver or assesses individual waiver applications.

If DNSPs plan to register for the RERT panel and would find value in extending the class waiver, the AER is interested to learn more about plans to offer RERT via voltage management. Additionally, the AER seeks insights from DNSPs on reasons for the lack of utilisation of the class waiver to date.

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[7] "Compared to last year's ESOO, forecast reliability has improved, helped by 5.7 gigawatts of newly advanced grid-scale generation and storage developments and 365 km of new transmission developments to 2033-34." AEMO, 2024 Electricity Statement of Opportunities (2024 ESOO Overview), 29 August 2024.

[8] AEMO's Integrated System Plan 2024, pg.10, figure 1.

[9] AusNet Services, Framework and Approach Letter and Proposal, October 2023; CitiPower, PowerCor, United Energy, Proposed framework and approach - 2026-31 regulatory period, October 2023; Jemena, Framework and approach letter and proposal, October 2023.

[10] AER, Final Framework and Approach – Victorian electricity distribution determinations 2026-31, July 2024.

Question 2: What are stakeholder views on current and future DNSP participation in the RERT market?

Question 3: What factors contributed to limited participation by DNSPs in the RERT market under the class waiver?

3.3 Competition in the RERT market

The 2022 class waiver decision considered the short notice RERT market as a whole and, in respect to the potential for discrimination, the market for providing RERT services specifically via voltage management. We noted that the RERT market is contestable and that it was undesirable to diminish competition in this space.

The AER decided to grant the class waiver, having considered the following issues:

- Voltage management services compete with other forms of RERT, e.g. load control and out of market generation.
- At the time only DNSPs were able to provide RERT via voltage management services but in the future, there may be competing services which could leverage consumer energy resources to manage demand.
- The costs of DNSPs providing RERT via voltage management would be very competitive compared to other RERT services.
- There would be a benefit of having lower RERT costs for consumers while also increasing the reliability of the energy market by providing AEMO with more possible RERT panellists. This was weighted against the risks of potential damages to developing competition from aggregators and other suppliers of RERT.

The AER is seeking to understand if the factors identified in 2022 for short notice RERT services have changed.

The value of DNSPs providing RERT services can shift dependent on forecast reliability gaps, risks associated with reduced competition and lost cost savings to consumers from the use of network assets for contestable services. This consultation aims to draw out any risks associated with DNSPs providing short notice RERT. We are keen to understand whether it impacts competition in RERT markets, emerging technology vendors, existing non-DNSP RERT providers, and end consumers (through network costs).

We are also seeking feedback on how the AER should assess the scope of the RERT market, including whether it should be for the provision of RERT services generally or for particular services such as voltage management, and whether assessment at a NEM wide level continues to be preferable or whether it is appropriate to consider regional or sub-regional markets.

Question 4: How competitive might the cost of RERT provided via voltage management by DNSPs be, as compared to other RERT services and providers?

Question 5: Are the costs for regional or sub-regional markets for provision of RERT services different for the purposes of this ring-fencing issue?

3.4 Impacts on power quality and assessment of risks

During the AER's 2022 consultation, stakeholders pointed to uncertainty around the impacts of voltage management on large consumers with significant assets through poor power quality. Concerns were raised that even if DNSPs remain within the technical range required by voltage standards, there may be negative impacts if DNSPs operate at lower or upper ends of these standards. The AER is seeking to understand any developments including what data or controls available to monitor and address the impacts of voltage fluctuations on consumers.

Additionally, stakeholders raised concerns that the earnings from the provision of RERT services may not reduce network costs for consumers. The revenue earned by DNSPs from the provision of RERT services will be unregulated revenue. Under the current regulatory framework, the shared asset guideline (SAG) is used for the treatment of this revenue.[11] Under the SAG, 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. With DNSPs providing RERT services, the unregulated revenue earned may not be material enough to trigger the 1 per cent threshold. Therefore consumers may not see benefits from additional use of network assets for unregulated distribution services. This may lead to increased risk of transfer of payments from consumers to DNSPs where customers do not receive the benefits from the shared use of those assets in unregulated services.

During the 2022 consultations, some stakeholders felt that the class waiver and DNSP provision of short notice RERT via voltage management would constrain the ability of other RERT providers to aggregate load within their networks. This is based on the concern that DNSPs' participation in the RERT market may disincentivise technology vendors working with Consumer Energy Resources including coordinated inverter controls, integrators, Virtual Power Plants, or utilisation of smart meters from developing their own RERT portfolios.[12] We seek to learn about any changes to the potential risks to competition if DNSPs were to continue to provide RERT services under a waiver. It would be beneficial to understand developments in competing forms of voltage management and whether the risks of discrimination have materialised or changed.

The AER would like to hear from stakeholders on how the above concerns are impacted if (i) the class waiver is extended, and (ii) if the class waiver is replaced by individual waivers.

[11] AER, Shared Asset Guideline, 29 November 2013

[12] Virtual Power Plants that are scheduled in market cannot participate in RERT.

Question 6: What new data is there on potential power quality risks from RERT via voltage management and how could any risks be monitored and managed?

Question 7: Have the risks of consumers paying more than required through revenues charged in relation to DNSPs providing RERT via voltage management and, if so, how?

Question 8: What advancements in technology have occurred in markets for other forms of voltage management and what is the outlook for further developments?

3.5 Exploring the option of individual waivers

If the class waiver expires, DNSPs would still be able to apply for individual waivers from the Guidelines to offer RERT services. Both individual and class waivers exempt DNSPs from obligations under the Guidelines and enable participation in contestable activities. Waivers also allow the AER to manage potential harms by establishing necessary guardrails. However, individual waivers enable the AER to assess DNSP-specific issues dependent on technology, network configuration, allocation of costs and the value of considering bespoke conditions.

The AER is seeking stakeholder views on whether risks would be better monitored if we grant individual waivers on a case-by-case basis and how this should be weighed against any costs or disadvantages of not continuing the class waiver.

Question 9: What are the risks/benefits of choosing class waivers vs individual waivers for DNSPs' participation in the RERT market post 15 April 2025?

4. Stakeholder engagement

The consultation approach provides stakeholders potentially impacted by the AER's decision regarding the class waiver adequate time to either undertake a process for class waiver extension or to apply for an individual waiver, if needed, before the class waiver expires. The approach also allows stakeholders who were not able to participate in the 2022 consultation process time to consider the issues raised in this paper and provide feedback.

4.1 Timeline

The proposed timing for our decision is:

Date	Pages
14 November 2024	Consultation starts
16 December 2024	Submissions close
February 2025	AER issues decision
15 April 2025	Expiry of class waiver

4.2 Request for submissions.

Interested parties are invited to make written submissions to the Australian Energy Regulator (**AER**) regarding this notice by the close of business, **Monday 16 December 2024**.

Submissions should be sent electronically to AERringfencing@aer.gov.au

Alternatively, submissions can be mailed to:

Ms Stephanie Jolly
Executive General Manager, Consumer, Policy and Markets Division
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim; and
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on the AER's website at www.aer.gov.au. For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy, June 2014 available on the AER's website.

Enquiries about this paper, or about lodging submissions, should be directed to the Policy branch of the AER on 1300 585 165 or AERringfencing@aer.gov.au

4.3 For more information

Information on the AER's role in distribution ring-fencing is available on our website: www.aer.gov.au

Any ring-fencing related queries should be sent to AERringfencing@aer.gov.au.

Glossary

Term	Extended Form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
DNSP	Distribution Network Service Provider
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
RERT	Reliability Emergency Reserve Trader
SAG	Shared Asset Guideline
The Guideline	Electricity Distribution Ring-fencing Guideline – Version 3 – 3 November 2021