



Part of Energy Queensland

28 January 2025

Ms. Stephanie Jolly  
Executive General Manager  
Australian Energy Regulator  
[AERringfencing@aer.gov.au](mailto:AERringfencing@aer.gov.au)

Dear Ms Jolly,

### **Updates to the ring-fencing guideline (electricity distribution)**

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide a response to the Australian Energy Regulator (AER) on its proposed updates to the ring-fencing guideline (electricity distribution) (the guideline).

We understand that the AER is proposing to make two amendments:

1. Modify clauses 5.3.4(b) and (c) and remove the current restriction on the maximum term for which ring-fencing waivers can be granted. The restriction currently limits waivers, other than for energy storage devices or stand-alone power systems, to the current and upcoming regulatory control periods (i.e. 5 regulatory years, or a maximum of 5 years beyond the remaining duration of a DNSP's current regulatory control period).
2. Standardise the way in which DNSPs submit annual compliance reports. Specifically, add a requirement that DNSPs' annual compliance reports for ring-fencing must include a letter signed by the highest-ranking officer of that DNSP.

Ergon Energy and Energex are supportive of the intent, and proposed wording, of both proposed amendments, in particular, we strongly support proposed amendment number one. This which would be a pragmatic change to the guideline that would increase efficiency and flexibility to reflect evolving priorities in the energy transition.

Further, we are encouraged by the AER's openness to receiving submissions with feedback on other prospective changes to the guideline, beyond the two proposed amendments. In this regard, we provide the following feedback.


Ergon Energy has 33 stand-alone micro-grids that form our Isolated Networks. They supply 39 communities with approximately 8,300 connections and 21,000 customers<sup>1</sup>. These isolated networks support a diverse range of communities in Torres Strait, Gulf of Carpentaria, Cape York, Palm Island and Western Queensland. They are autonomous micro-grids, not connected to the National Electricity Market (NEM).

Ergon Energy, as part of its Isolated Networks Strategy<sup>2</sup>, is committed to sustainable energy solutions. While the Isolated Networks are not primarily regulated by the AER, the ring-fencing framework still applies because Ergon Energy is a registered DNSP.

The Isolated Networks, and other western Queensland regions, are unique, with vast distances at play, low population densities, different types of customers, geographic contexts and limited competitive markets. This differs greatly from the 'normal' customer and market profile in NEM connected communities. It is our view that the current ring-fencing restrictions are underpinned by the understanding that market forces are best to drive innovation and outcomes for customers, however, this view does not necessarily reflect the realities in the context of regional Queensland. Ergon Energy is of the view that DNSPs may be best placed to lead innovation in such locations. This could increase the opportunity to develop and implement innovative solutions in areas where a competitive market for such services and products is unlikely to develop.

Ergon Energy and Energex strongly encourage the AER to undertake a broad ranging review of the ongoing effectiveness and suitability of the current ring-fencing framework, especially in respect of its application in areas with little, to no, competition. While Energex and Ergon Energy are supportive of the intent of the Guideline generally, we are of the view that there are strong existing competition and discrimination laws that already oblige DNSPs to not negatively impact competition, for example national competition law. These existing protections may be duplicative of the ring-fencing framework. A review could consider a cost benefit analysis of the existing framework and also determine any regulatory overlap, with the intent being to reduce the ongoing regulatory and administrative burden imposed under the existing ring-fencing framework.

We think it's also timely for the AER to consider whether it's still efficient for batteries to be excluded from the shared asset mechanism available under the AER's Shared Asset Guideline. In our view, the Shared Asset Guideline is the appropriate mechanism and we would encourage the AER to conduct a review so as to ensure that DNSPs are not prevented from investing in batteries which can provide multiple services in the long term.

We would welcome the opportunity to discuss this further with the AER. Should the AER wish to discuss any aspect of this submission, please contact either myself, or Mark Simpson on 

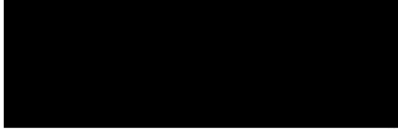
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<sup>1</sup> Available [here](#).

<sup>2</sup> Available [here](#).

This submission does not contain confidential information and may be published.

Yours sincerely



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