



28 September 2012

Mr Chris Pattas  
General Manager  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001  
AERInquiry@aer.gov.au

Dear Mr Pattas

**ELECTRICITY DISTRIBUTION RING-FENCING GUIDELINES REVIEW –  
SUBMISSION TO POSITION PAPER**

Thank you for the opportunity to provide input to the Australian Energy Regulator's (AER) *Electricity Distribution Ring-Fencing Guidelines – Position Paper*, (Position Paper) released on 4 September 2012.

Aurora Energy Pty Ltd (Aurora) remains supportive of the proposed development of nationally consistent ring-fencing guidelines that apply to distribution network service providers where the guidelines clearly demonstrate a more efficient and effective regulatory framework for customers.

Aurora is currently an incorporated, State Government-owned fully integrated energy and network business, with complementary activities in telecommunications and energy-related technologies. Aurora provides electricity generation, retail and distribution (network) services to more than 270 000 customers in Tasmania.

Since Aurora's previous submission to this review, the Tasmanian Government, on 15 May 2012, announced significant structural and regulatory reforms to the Tasmanian electricity supply industry. The reforms include divesting Aurora's generation assets and retail customer base, and merging Aurora's network and telecommunications business with Transend Networks. The divestment process is set to be finalised by 1 January 2014 to align with the commencement of full retail contestability, and the new integrated network and transmission government-owned business is set to commence from 1 July 2014.

The Government's reforms will impact on every business unit within Aurora, and all of Aurora's customers. Changes to the current state-based ring-fencing requirements will create an additional layer of complexity as the business transitions from managing retail and generation businesses, to one

which is an integrated transmission and distribution business (which brings with it a whole new set of ring-fencing requirements and obligations).

As you would appreciate, the proposed timing for the commencement of the AER's final distribution ring-fencing guidelines will be critical in the context of managing Aurora's reform transition arrangements. The Position Paper, while stating that the AER intends to publish the final guideline in March 2013, is silent on its proposed commencement.

Ideally the commencement of the ring-fencing guidelines would apply from the start of a new regulatory control period, so that incremental costs can be considered. However, in the event that the AER wishes to commence the guidelines earlier than 2017 in Tasmania, Aurora welcomes the AER's recognition in the Position Paper that '...flexibility will be required, in the short term, to facilitate the transition to NEM-wide arrangements, and in the longer term to deal with exceptional circumstances that impact on some DNSPs'. Aurora submits that this flexibility should extend to the commencement of the new guidelines in Tasmania, and should ideally be a date following the commencement of the new integrated transmission and distribution business.

The benefit of this flexible timing is to ensure that the administrative costs of compliance do not outweigh any actual or likely benefits to customers or the market.

Aurora's response to specific questions raised in the Position Paper is provided at Attachment A.

If you have any questions regarding this submission please contact Ms Kim Enkelaar, Market Policy Manager on ph. 03 6237 3597 or by email at [Kim.Enkelaar@auroraenergy.com.au](mailto:Kim.Enkelaar@auroraenergy.com.au).

Any questions you may specifically have on the Tasmanian Government reforms can be directed to Mr Richard Sulikowski, Executive Director, Policy and Projects, Electricity Reform, Department of Treasury and Finance on ph 03 6233 2600 or by email at [Richard.Sulikowski@treasury.tas.gov.au](mailto:Richard.Sulikowski@treasury.tas.gov.au)

Yours sincerely



**Rick Inglis**

**General Manager, Strategy and Corporate Affairs**

cc. Mr Martin Wallace, Secretary, Department of Treasury and Finance  
Mr Norm McIlfratrick, Secretary, Department of Infrastructure, Energy and Resources

Aurora's response to specific issues raised in the AER's Position Paper	
Ring-fencing provisions	<p>In addition to the provisions identified in the Position Paper, consideration should be given to the AER developing high level ring-fencing principles from which mandated ring-fencing requirements could be derived (such as the requirement for legal separation, for example). Non-mandated ring-fencing requirements could then also be inferred (for example, 'non-discrimination'). High level principles would serve to indicate where a ruling may need to be sought from the AER as to whether an activity is compliant or otherwise.</p> <p>High level principles could also be developed for the transmission ring-fencing requirements to ensure they are consistent with the broad objectives and principles of distribution ring-fencing requirements.</p> <p>Aurora notes that the relevance and objectives of ring-fencing in the Tasmanian context is different from other jurisdictions in the NEM as there is only one transmission company and one distribution company operating in Tasmania. The Tasmanian distribution network is geographically dispersed across a relatively small number of customers in comparison to other NEM jurisdictions. This creates a unique set of challenges for the DNSP. Also as a relatively small DNSP that provides contestable and non-contestable services, ensuring that efficient costs are achieved for customers would be more challenging if ring-fencing requirements resulted in physical separation of contestable and non-contestable services across different sites. Aurora currently has a waiver under State ring-fencing guidelines issued by the Tasmanian Economic Regulator to allow staff to operate on the same site (but with access restrictions at that site).</p>
Emerging market considerations	<p>Comments from retailers in response to the AER's Issues Paper in relation to the contestability of unregulated products appear to have not appreciated the distinction between the hardware associated with the provision of smart metering capability and the "products" that arise as a result of the capabilities of having that hardware available.</p> <p>The provision of interval meter hardware (Type 1 to 4) is currently contestable, whereas the metering hardware for Types 5, 6 and 7 meters is not currently contestable. The acquisition of metering data from remotely readable meters (Type 1 to 4) should remain contestable.</p> <p>In response to concerns of some retailers that DNSPs will not release interval data obtained from smart meters, or restrict the release of interval data to one retailer, Aurora notes that the AEMC Power of Choice Stage 3 DSP review considers that this should not be the case. The Power of Choice review considers that DNSPs should provide all retailers with access to all customer data all of the time to facilitate competition within a fully contestable market. Aurora notes that achieving this will occur at some cost to DNSPs, and therefore, customers.</p>

	<p>Some retailers have also stated that they are concerned with the ability of DNSPs to remotely control load for demand-control purposes. Understanding that demand-control activities restrict retailer's ability to sell electricity, the priority however for DNSPs is supporting a reliable and stable network which requires significant control over network loading and other elements that create instability on the network.</p> <p>The ability of a DNSP to own a generator should be permitted. This would allow for innovation in non-network solutions and support efficient investment decisions.</p>
Amendment, Variation or Waiver	Aurora supports the concept of a waiver as it provides important flexibility to allow the AER to account for differing jurisdictional circumstances.