



23 February 2012

Mr Chris Pattas  
General Manager, Network Operations and Development  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Pattas

**ELECTRICITY DISTRIBUTION RING-FENCING GUIDELINES REVIEW –  
SUBMISSION TO DISCUSSION PAPER (AER REFERENCE 46484)**

Thank you for the opportunity to provide input to the Australian Energy Regulator's (AER) *Electricity Distribution Ring-Fencing Guidelines Review – Discussion Paper*, (Discussion Paper) released on 11 December 2011.

Aurora supports 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. To achieve this for Tasmanian customers, Aurora considers that any proposed guidelines will need to include waiver provisions to account for different market and organisational structures that exist across the country.

Aurora Energy Pty Ltd (Aurora) is 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. Aurora's purpose - "To see the Tasmanian community prosper from its efforts" - and strategic focus - "To meet customer needs at the lowest sustainable cost" - is consistent with the expectations of Aurora's shareholders, being the Minister for Energy and the Premier who represent the interests of the Tasmanian community.

The relative small scale of Aurora's retail and distribution businesses compared to other mainland was one of the elements behind Aurora being established as a single State-wide integrated distributor and retailer this integration provides an opportunity to achieve economies of scale, which is one method of lowering costs for customers, while still maintaining appropriate ring-fencing of distribution activities.

Aurora recognises that managing such differences in a manner that will protect customers through appropriate ring-fencing requirements across multiple jurisdictions requires a flexible approach. Aurora commends the discussions provided by the Tasmanian Economic Regulator in the current Tasmanian functional ring-fencing guideline and the associated discussion paper as a useful resource in this respect.

The Tasmanian Government's Electricity Supply Industry Expert Panel's recent findings in its report "*Independent assessment of the Tasmanian Electricity Supply Industry: Draft Report*" released in December 2011, stated that

'Importantly, the incumbent retailer, Aurora Energy, is not widely seen to hold a significantly dominant position to the extent that would deter other retailers entering the market. However, it is necessary to ensure that appropriate ring-fencing exists between Aurora Retail and Aurora Distribution to ensure equality in treatment.' (p.184)

The Expert Panel noted that only one minor ring-fencing matter had been raised by the Tasmanian Economic Regulator, regarding customer contestability notification, and that this was rectified expeditiously by Aurora.

As a vertically integrated energy business, Aurora appreciates the importance of ensuring appropriate accounting and functional ring-fencing requirements exist as part of the competitive market arrangements and that these are upheld by the business. Aurora is aware that the basis of effective and efficient market competition in a monopoly environment requires separation of network activities from any retail function and it actively manages this.

Aurora supports the aim of the ring-fencing guidelines to protect individual transactions and customers. While the *Competition and Consumer Act 2010* contains certain protections and obligations, the existence of a threshold of 'substantial effect on competition' before such protection can be invoked potentially places such a remedy beyond the reach of the general customer base. Well-designed ring-fencing guidelines provide a mechanism for small parties to readily raise matters of anti-competitive conduct so that they may be dealt with efficiently for all parties involved.

Aurora notes that the Discussion Paper states that jurisdictional regulators have previously expressed concern about a number of ways through which vertically integrated distribution network service providers may engage in price and non-price discrimination and evade regulatory constraints. However, Aurora is unaware of any instances where the Tasmanian Economic Regulator or market participants have expressed those concerns in regard to Aurora's undertakings or actions in this way.

Aurora has implemented physical and systems-based requirements to implement functional and accounting separation requirements in accordance with the Tasmanian Economic Regulator's functional ring-fencing and accounting ring-fencing guidelines. Any transition to a new national ring-fencing framework that requires implementation of new arrangements is likely to result in additional costs to customers. Aurora requests that the AER take this into consideration when drafting the new guidelines, and that the AER also allow an appropriate timeframe for transitioning to any new arrangements so that the impact on customers may be minimised.

Aurora understands that from 1 July 2012, the AER will assume regulatory responsibility for ring-fencing in Tasmania and that until such time that new national guidelines may be adopted, the Tasmanian Economic Regulator's current ring-fencing guidelines and any associated waivers will remain in force. Aurora also expects that the accounting ring-fencing templates issued by the Tasmanian Economic Regulator will also remain as a requirement.

Aurora notes that the Discussion Paper references the Tasmanian Economic Regulator May 2005 accounting ring-fencing guidelines as the current guidelines. However, in March 2011 the Tasmanian Economic Regulator issued revised accounting ring-fencing guidelines (Electricity Industry Guideline 2.2, Issue No 5). The March 2011 guidelines can be accessed at [www.energyregulator.tas.gov.au](http://www.energyregulator.tas.gov.au) under the 'Electricity Guidelines and Standards' tab.

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).

Yours sincerely



**Rick Inglis**

**General Manager, Strategy and Corporate Affairs**

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

