24 February 2012

positive energy

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
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Dear Mr Pattas

AER Electricity Distribution Ring-Fencing Guidelines Review

ENERGEX welcomes an opportunity to comment on the AER's Electricity Distribution Ring Fencing Guidelines Review (Discussion Paper).

ENERGEX acknowledges that distribution network service providers (DNSPs) may participate in competitive elements of the supply chain and that ring fencing is aimed at limiting the ability of vertically integrated DNSPs from favouring related businesses to the detriment of an efficient market. ENERGEX notes that it is also important to acknowledge that DNSPs have the expertise to provide certain services in upstream and downstream markets that may result in a positive flow on effect to customers. These customer benefits were not addressed in the Discussion Paper when reflecting on the current structure of vertical integration in the NEM.

The National Electricity Rules (the Rules) require the AER to consider the need for consistency between distribution and transmission ring fencing requirements. ENERGEX supports such consistency where similarities exist, but notes that any distribution ring fencing guidelines need to be cognisant of particular activities undertaken by distribution businesses. For example, distribution businesses may undertake generation activities for the purposes of network support and such activities should be exempt from ring fencing requirements if the activity does not earn revenue in the retail market (as currently adopted by South Australia).

A review of ring fencing requirements will provide an opportunity for guidelines to more appropriately reflect the current regulatory framework, current industry structure and emerging technologies or industry trends.

ENERGEX suggests that the ability for a DNSP to apply for a ring fencing waiver is a fundamental and important feature that needs to be included in any national distribution ring fencing guidelines where the administrative costs of compliance outweigh any actual or likely benefits to customers or the market.

Lastly, in Queensland, DNSPs are required to allocate costs that are shared

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between prescribed distribution services (standard control services), non-prescribed distribution services (alternative control services) and unregulated activities in a manner that ensures there is no cross subsidy, and according to a methodology approved by the Queensland Competition Authority (QCA). ENERGEX suggests that any national guidelines should adopt a similar approach, requiring a DNSP to allocate costs according to the AER's approved Cost Allocation Methodology (CAM). Allocation should also be subject to a materiality threshold to ensure that compliance costs do not outweigh benefits where the related business is small.

Should you wish to discuss these matters please contact Louise Dwyer, Group Manager Regulatory Affairs on 07 3664 4047.

Yours sincerely

Kevin Kehl
Executive General Manager Strategy and Regulation