

Essential Energy

8.05 Ring-fencing waivers

January 2023

Attachment summary

- > We are requesting a continuation of our current ring-fencing waivers for:
 - the Essential Water business in the Broken Hill region
 - technical training services in some regional areas.

Overview

The *Ring-fencing Guideline – Electricity Distribution* (Guideline) requires a Distribution Network Service Provider (DNSP) to comply with ring-fencing obligations. The obligations require physical and functional separation between a DNSP's direct control services and the contestable electricity services provided by a DNSP or its related business. The aim of ring fencing is to promote the development of competitive markets by preventing DNSPs from:

- > discriminating in favour of their related parties to disadvantage competitors operating in these markets
- > using revenue earned from regulated services to cross-subsidise contestable services.

Under specific circumstances, the Australian Energy Regulator (AER) may grant a DNSP a waiver from complying with obligations set out in the Guideline.

Essential Energy currently has four ring-fencing waivers, relating to:

- > Essential Energy's technical training service for the delivery of training courses in regional New South Wales
- > Essential Water
- > Essential Energy's leasing of excess capacity from its Sovereign Hills Battery
- > Essential Energy's joint ownership and operation of pole top batteries with a retail partner.

The ring-fencing waivers for technical training services and Essential Water apply to the end of the current regulatory period, expiring 30 June 2024. Essential Energy is applying to the AER for a continuation of the waivers granted for these services over the 2024–29 regulatory period, commencing 1 July 2024. The waiver applications are provided in **Attachments 8.05A Ring-fencing waiver Technical Training** and **8.05B Ring-fencing waiver Essential Water**.

Essential Energy currently offers three notionally contestable technical training courses to Accredited Service Providers, or those who work on or near the network. Essential Energy is applying for the continuation of the technical training waiver because:

- > there is a limited competitive market for these services in regional New South Wales and a waiver will protect customers requiring these services in the specific locations requested
- > customers still require these training services
- > there have not been any complaints from a competitor in the current regulatory period
- > complying with the ring-fencing obligation would result in reduced services and/or increased costs for customers for no public benefit. This problem is likely to be particularly acute in the regional communities Essential Energy serves.

Essential Energy (trading as Essential Water) is responsible for providing water and wastewater services to customers within the local government area of Broken Hill City Council; the Stephens Creek, Umberumberka Creek and Yancowinna Creek Special Areas; the localities of Menindee and Sunset Strip; and the land over which the Menindee to Stephens Creek pipeline is situated. Essential Energy supplies about 5,470 ML of water per year to around 10,000 residential customers and 500 non-residential customers. Essential Energy also provides non-potable water to around 50 rural users along the Menindee to Broken Hill pipeline for stock and domestic purposes.

Essential Energy is applying for the continuation of the Essential Water waiver because:

- > there are no issues of competition given Essential Energy and Essential Water are both regulated businesses
- > there are likely to be no benefits to the community of complying with the ring-fencing obligations given Essential Energy and Essential Water are both regulated businesses
- > the additional costs associated with complying with the ring-fencing obligations are therefore likely to outweigh the benefit of achieving compliance.

Granting waivers to the Guideline's obligations for Essential Energy's specified technical training and Essential Water therefore promotes the long-term interests of consumers, consistent with the National Electricity Objective.