

23 September 2019

Moston Neck
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Neck

RE Australian Energy Regulator's Ring-Fencing Guideline

TasNetworks welcomes the opportunity to provide comments on the Australian Energy Regulator's (**AER**) Ring-Fencing Guideline – Electricity Distribution Version 2 (**the Guideline**).

As the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and jurisdictional planner in Tasmania, TasNetworks is focused on delivering safe and reliable electricity network services while achieving the lowest sustainable prices for Tasmanian customers.

TasNetworks supports Energy Networks Australia's (**ENA**) submission and would like to make several further comments with a particular focus on the Tasmanian context.

TasNetworks acknowledges the important role the Guideline plays in preventing cross-subsidies and discriminatory behaviour in competitive markets. With the constantly changing nature of the energy supply market it is important that the benefits of ring-fencing are actual, not perceived and that they outweigh the costs of implementation. With that in mind, TasNetworks supports the AER's expressed intention of keeping flexibility in the Guideline to ensure it is fit for purpose in the differing market conditions customers experience across the jurisdictions of the National Energy Market (**NEM**).

TasNetworks would like to see more flexibility in the AER's approach to meeting the Guideline objective of 'promoting competition in the provision of electricity services'. The inclusion of 'regional offices' in the Guideline indicates an acknowledgement that in these areas the costs of ring-fencing can outweigh the potential benefits to customers.

TasNetworks would argue this is not only something that occurs due to geographic isolation. There are other reasons for a lack of competition developing for some services including historic, technical skill availability and/or economies of scale. TasNetworks would point to the Provider of Last Resort scheme used in NSW as an example of a way improved customer outcomes can be achieved whilst allowing competition in the provision of services to develop. Where such schemes have been effective in ensuring a transition to competitive

markets while delivering effective outcomes, TasNetworks advocates for the replication of these schemes with minimal regulatory burden, where it can be demonstrated that the jurisdiction has similar market circumstances.

TasNetworks would also like to see some acknowledgement that there can be a significant transition period before a competitive market develops and that just excluding a DNSP from a market will not automatically create service provision to a level expected by customers. In fact, such an action can result in sub-optimal customer outcomes during the period of transition. For example, historically the provision of private overhead lines in Tasmania has often been undertaken by the network service provider. While TasNetworks acknowledges this is a service that can be provided by other parties, through our consultation, electrical contractors have provided feedback that they require a reasonable transition period to remedy equipment and training shortfalls before they could be effective in this market. Key stakeholders have expressed concern that if TasNetworks were to suddenly exit the market, customers would be unable to procure the services they need and want, resulting in detrimental impact to the reputation of the industry in Tasmania.

Clarity in definitions is critical. Due to the close relationship between the AER's service classification and ring-fencing requirements, TasNetworks would urge a consistency in language used in both to reduce confusion. The use of *unclassified distribution services* to describe services which are classified but not as direct control or negotiated services makes describing services which are not classified as distribution services difficult. This can lead to confusion as to how to apply the ring-fencing obligations to these services. In general, TasNetworks finds the definitions contained in the Guideline do not always add clarity. The use of examples in the recently updated RIT Guidelines are useful in clarifying some similar definitional issues and TasNetworks would be supportive of the AER applying a similar approach to the Ring-fencing guidelines.

TasNetworks also seeks clarity on the AER's approach to deciding the materiality of ring-fencing breaches. As indicated in the ENA's submission, the current definition of materiality as being 'something that is more than trivial' is open to broad interpretation. While appreciating the AER's proposal for DNSPs to report all breaches and leave the determination of materiality to the AER, the process of submitting a report is non-trivial and for a minor once off issue, reporting would seem an overly bureaucratic response.

If you have any questions related to this matter or would like to discuss our feedback further please contact Tim Astley, NEM Strategy and Compliance Team Leader on Tim.Astley@tasnetworks.com.au or by phone on (03) 6271 6151.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chantal Hopwood', with a large, stylized flourish at the end.

Chantal Hopwood

Leader Regulation