

28 September 2016

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Australian Energy Regulator
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Melbourne VIC 3001

Submitted by email to Ringfencingguideline2016@aer.gov.au

Dear Mr Pattas

Draft Electricity Distribution Ring-fencing Guideline 2016

TransGrid welcomes the opportunity to respond to the draft guideline and explanatory statement published in August 2016 as part of the AER's review of how ring-fencing applies to distribution networks in the National Electricity Market.

TransGrid is the operator and manager of the high voltage transmission network connecting generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, providing an electricity system that makes interstate energy trading possible.

TransGrid understands that this review will result in changes to how ring-fencing is applied to distribution networks. However, the AER's consultation documents indicate *"future ring-fencing arrangements for transmission services will likely mirror the arrangements that will be put place for distribution"*. As such, TransGrid offers the following high level observations in relation to transmission networks and will make a more detailed submission if and when the AER seeks to review ring-fencing arrangements for transmission networks.

Transmission networks are a natural platform to deliver innovative solutions for a transforming energy market

The Australian energy market is evolving and it is important that the regulatory framework evolves with it. TransGrid is concerned that the AER's approach is not forward looking for an evolving market. Networks are a natural platform to deliver innovative solutions for a transforming energy market but the AER's approach on ring-fencing will inhibit innovation in emerging energy services.

Emerging energy services and new technologies, such as large-scale batteries, will play an important role in the future of electricity network services. Technology and changing customer participation in the energy supply system requires networks to be innovative and responsive so they are able to provide efficient services to meet future needs. There is the prospect that the AER's approach to ring-fencing will constrain efficient network service provision.

TransGrid has undertaken a number of significant and innovative demand management and storage projects. In 2014, TransGrid's iDemand system combined solar panel and battery installations to reduce on-site energy costs and was nominated for a Clean Energy Council

award. In June 2016, TransGrid announced the installation of lithium ion batteries at the City of Sydney's Alexandra Canal Works depot which will combine support for the electricity grid while providing cost saving services to the site. The Alexandria installation is the first of two large scale installations planned to be connected to the TransGrid network using Automated Demand Response technology.

TransGrid would encourage the AER to look more broadly to see how other regulators around the world are dealing with similar issues around an evolving energy market. As an example, in California, regulated network businesses are actively encouraged to increase the uptake of storage services, demand management and other emerging technologies.

Ring-fencing exists within a complex regulatory framework

TransGrid would encourage the AER to take a holistic approach to regulation and carefully consider the interaction of different instruments in the regulator's toolkit. Transmission businesses are already subject to a number of regulatory instruments and reporting guidelines which are designed to prevent cross-subsidisation of contestable services by regulated services.

As transmission businesses do not directly connect to residential customers many of the concerns discussed in this current review do not apply to transmission businesses. Furthermore, transmission customers – including generators, industrial customers and distribution networks – have a sophisticated understanding of energy markets. It would seem to be unnecessary regulation by simply transferring arrangements for distribution businesses that will impose unnecessary costs and risk stifling both market development and innovation.

A separate consultation process is required to review transmission

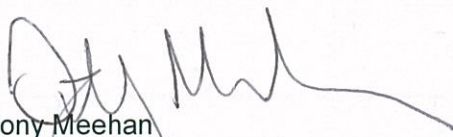
Any review of the existing ring-fencing arrangements for transmission networks should be undertaken through a separate review with an open and transparent public consultation process.

It would be expected that any review would also properly account for the differences between transmission and distribution networks. For example, the approach to how services are classified for transmission and distribution is different. Transmission services are defined in the National Electricity Rules, while service classification for distribution networks is considered during the Framework and Approach process of a regulatory determination process.

In terms of timing, it would be prudent for the AER to wait until the Australian Energy Market Commission has reached a final determination on its Transmission Connections and Planning Arrangements rule change before considering whether to initiate a review given the overlap in the issues being considered.

If you would like to discuss any matter raised in this submission, please do not hesitate to contact me on (02) 9284 3300.

Yours faithfully



Tony Meehan
Executive General Manager, Business Growth and Revenue