Cost allocation methodology and ring-fencing for EII regulated transmission services: Guidance Note

May 2025

AUSTRALIAN ENERGY REGULATOR

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1 Overview

1.1 Who are we?

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. We are the economic regulator for wholesale and retail energy markets, as well as electricity and gas networks in every state and territory in Australia except Western Australia. We regulate electricity networks under the National Electricity Law (NEL) and National Electricity Rules (NER). We are also a regulator under the *Electricity Infrastructure Investment Act 2020 (NSW)* (EII Act). [1]

1.2 Introduction

This Guidance Note outlines how we will apply the rules relating to cost allocation and ring-fencing to EII regulated transmission services. EII regulated transmission services are provided by authorised Network Operators (NOs). They include prescribed transmission services and connection services that form part of a REZ network infrastructure project or a priority transmission infrastructure project.[2]

This Guidance Note is in response to the introduction of Chapter 9A of the NER in NSW.[3] It provides guidance to Transmission Network Service Providers (TNSPs), Distribution Network Service Provider (DNSP), and other NOs, as the rules applicable to them are varied under Chapter 9A of the NER.

We circulated a draft of this document for feedback to NOs under the EII Act who we think may be directly affected, in addition to the NSW Department of Climate Change, Energy & Environment (DCCEEW) and EnergyCo. Their feedback has been considered and incorporated in this final version.

1.3 What is cost allocation?

We require the NO to provide us with information we consider necessary to enable us to make a non-contestable revenue determination under the EII Act.[4] This includes the accurate identification and allocation of the cost of delivering different types of activities or services. Effective cost allocation requirements prevent cross-subsidisation between activities or services, ensuring consumers only pay the efficient costs of the services they consume. Cost allocation complements the obligations for ring-fencing[5] which relates to the allocation and attribution of a TNSP or DNSP's costs between service categories.

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[1] IPART has also been appointed as a Regulator to undertake certain functions under the EII Act. See: https://www.aer.gov.au/networks-pipelines/nsw-renewable-energy-zones.

[2] *EII regulated transmission services* is defined in Chapter 9A. On 6 December 2024, the NSW Minister for Energy published, in the NSW gazette, the Chapter 9A modification of the NER in NSW under the EII Act 2020. These rules are taken to be inserted to the NER as a new chapter 9A immediately after Chapter 9.

[3] Clauses 9A.13.5, 9A.13.6 and 9A.13.7, National Electricity Rules (NSW).

[4] EII Act, s.38(7) and EII Regulation, cl. 48(1) & (2)

[5] For TNSPs, see rule 6A.21 and Clause 9A.13.5(b)(2), 9A.13.7 (National Electricity Rules). For DNSPs, see rule 6.17 (National Electricity Rules)

Under Chapter 6A of the NER, a TNSP must develop a cost allocation methodology which we review, approve or reject, monitor, report and enforce. A cost allocation methodology relates to the allocation and attribution of a TNSP's costs between its transmission services. The transmission service categories include prescribed transmission services; negotiated transmission services, and non-regulated transmission services. Similarly, DNSPs allocate and attribute their costs via a cost allocation methodology under Chapter 6 of the NER. The distribution service categories include direct control services (standard control services and alternative control services), negotiated distribution services, and unclassified services (or unregulated services).

The costs that can be allocated to these categories are:

- **Directly attributable** – costs that are directly attributable to the provision of that category of transmission/distribution service.
- **Shared costs** – costs that are attributable to both prescribed transmission/distribution services and negotiated transmission/distribution services or shared within different types of negotiated transmission/distribution services.[6]

Under the NER, we have developed and published the Cost Allocation Guideline (transmission) for TNSPs and Cost Allocation Guideline (distribution) for DNSPs.

1.4 What is ring-fencing?

Ring-fencing refers to the legal, accounting and functional separation of regulated activities from other activities. It aims to prevent TNSPs and DNSPs from using their position as monopoly providers of non-contestable regulated activities in ways that undermine or damage competition, efficiency and innovation in contestable markets. The two contestable market distortions ring-fencing is trying to address are:

- **Cross-subsidisation**, where a TNSP or DNSP uses revenue it earns in providing regulated activities to subsidise its activities in other, contestable markets. Cross-subsidisation can have the effect of undermining or damaging competition and innovation in related contestable markets. In addition, it can result in consumers paying more than they should for regulated activities.
- **Discrimination,** where a TNSP or DNSP can use its monopoly position in regulated markets, or information obtained through the provision of those regulated activities, to favour itself (or an affiliated entity) or to discriminate against a competitor in contestable markets. This harms consumers by distorting outcomes in competitive markets, reducing competition and so increasing prices and reducing innovation.

The NER requires the AER to develop guidelines (the ring-fencing guidelines) for the accounting and functional separation of the provision of prescribed transmission services (for TNSPs) or direct control services (for DNSPs) from the provision of other services. This is to provide:

- **Accounting separation**: The ring-fencing guidelines require TNSPs and DNSPs to establish and maintain appropriate internal accounting procedures to ensure that it can

[6] For an example see the Glossary in the NER DNSP and TNSP Cost Allocation Guidelines.

demonstrate the extent and nature of transactions between the TNSP/DNSP and its affiliated entities. TNSPs and DNSPs must also attribute their costs between transmission/distribution services and other services in a manner that is consistent with their approved cost allocation methodology. This provides accounting separation of the provision of transmission/distribution services from the provision of other services by the TNSPs/DNSPs or by their affiliated entities.

- **Functional Separation**: The ring-fencing guidelines includes specific obligations related to functional separation of TNSPs/DNSPs and their affiliated entities. These obligations are different for DNSPs[7] and TNSPs[8].
- **Legal separation:** The ring-fencing guidelines includes specific functional obligations. These obligations are different for DNSPs and TNSPs.

The NER requires TNSPs[9] and DNSPs[10] to comply with the ring-fencing guidelines.

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[7] AER, *Ring-fencing Guideline Electricity distribution Version 5 -* chapter 4, February 2025

[8] AER, *Ring-fencing Guideline Electricity Transmission Version 5 -* chapter 4, February 2025

[9] NER Cl. 6A.21.1

[10] NER Cl. 6A.21.2

2 Obligations under EII Act prior to legislative changes

Clause 47 of the EII Regulation requires us to publish guidelines on our website setting out how we will exercise our functions under Part 5 of the EII Act. Following this, we published our EII Non-Contestable Guideline.[11] This included an Appendix known as EII Chapter 6A, which is the EII version of Chapter 6A of the NER.[12] We also published an EII Contestable Guideline.[13] These EII revenue determination guidelines reference amending, developing and submitting for approval a cost allocation methodology for NOs. The cost allocation method and the development of an associated guideline is further explained under EII Chapter 6A.[14]

Additionally, under the now repealed Clause 42 of the EII Regulation,[15] we were required to issue a EII Legal and Functional Separation Guideline (EII Ring-Fencing Guideline) for NOs about:

- The legal separation of an entity through which an NO conducts regulated activities from any other entity through which it conducts business,
- The establishment and maintenance of consolidated and separate accounts for regulated activities and other activities conducted by the NO, and
- The limitations on the flow of information within an NO, if there is the potential for a competitive advantage or disadvantage to arise.

Subsequently, we published a draft EII Cost Allocation Guideline and a draft EII Ring-Fencing Guideline. After the draft guidelines were published, we became aware that DCCEEW was considering changes to the NSW framework (EII Act and EII Regulations) that may influence the action and relevance of these draft guidelines. Therefore, we did not finalise those guidelines.[16]

2.1 Legislative changes

In December 2024, DCCEEW made several legislative changes. This included the repeal of clause 42 of the EII Regulation and the addition of Chapter 9A (NSW) into the NER. The impact of these changes is discussed in the sections below.

2.1.1 Repeal of Clause 42 of the EII Regulation

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[11] https://www.aer.gov.au/industry/registers/resources/guidelines/revenue-determination-guideline-nsw-non-contestable-projects-july-2024

[12] https://www.aer.gov.au/documents/aer-appendix-eii-chapter-6a-transmission-efficiency-test-and-revenue-determination-non-contestable-guideline-july-2024

[13] https://www.aer.gov.au/industry/registers/resources/guidelines/revenue-determination-guideline-nsw-contestable-projects

[14] See EII Ch 6A, Clauses 6A.19.3 and 6A.19.4

[15] See: https://legislation.nsw.gov.au/view/html/inforce/current/sl-2021-0102#statusinformation

[16] https://www.aer.gov.au/industry/registers/resources/guidelines/nsw-rez-supporting-guidelines

By repealing Clause 42, the EII Ring-Fencing Guideline no longer applies, and our EII Contestable Guideline and EII Non-Contestable Guideline (including EII Chapter 6A) will need to be amended to remove reference to this clause and guideline.

2.1.2 Introduction of Chapter 9A (NSW) into the NER

The following rules and clauses within Chapter 9A are important in understanding the impact on NOs providing EII regulated transmission services:

1. Rule 9A.13 within Chapter 9A states that '*[t]he purpose of this rule is to modify the application of Chapter 6A to Transmission Network Service Providers who provide EII regulated transmission services*.'
2. Clause 9A.13.5 of Chapter 9A, stipulates that 'EII regulated transmission services' are to be treated as 'non-regulated transmission services' for the purposes of Chapter 6A of the NER, except under rules 6A.19 (cost allocation) and 6A.21 (ring-fencing arrangements for TNSPs), where EII regulated transmission services are to be treated as a 'prescribed transmission service'.
3. Clause 9A.2.1 of Chapter 9A defines an 'EII regulated transmission service' as any of the following services:
    a) developing, constructing or owning EII assets; or
    b) using EII assets to provide:
        i) a prescribed transmission service; or
        ii) a connection service that is provided to serve a Transmission Network User, or group of Transmission Network Users, at a single transmission network connection point.

3 Impact of legislation changes

3.1 Changes to cost allocation requirements

The Chapter 9A changes to cost allocation and their interaction with other guidelines and clauses are noted below:

1. Clause 9A.13.5 provides for EII regulated transmission services provided by TNSPs to be treated as 'prescribed transmission services' in accordance with the Cost Allocation Guideline (transmission). This means that a TNSP will need to allocate EII regulated transmission services in accordance with our Cost Allocation Guideline (transmission).
2. These changes do not apply to DNSPs or NOs that are not yet registered as a TNSP or DNSP. This Guidance Note clarifies that they are expected to follow the draft EII Cost Allocation Guideline. If a NO then registers as a TNSP, it will need to amend its CAM to be in line with the Cost Allocation Guideline (transmission) and comply with NER rules 6A.19 (cost allocation) and 6A.21 (ring-fencing arrangements) within 6 months of being required to do so by the AER. The draft EII Cost Allocation Guideline is intended to align with the Cost Allocation Guideline (transmission), therefore there will be minimal amendments required.
3. We will need to amend both our EII Non-Contestable Guideline and EII Contestable Guideline to remove reference to the EII Cost Allocation Guideline. This will be replaced with a reference to the Cost Allocation Guideline (transmission) for TNSPs. Once we make these amendments, other NOs (not TNSPs) should consider any reference to the Cost Allocation Guideline (transmission) to be the draft EII Cost Allocation Guideline.
4. Clause 9A.13.6(a)(1) of Chapter 9A gives us the discretion to amend the Cost Allocation Guideline (transmission) to address its application to a TNSP which provides EII regulated transmission services. The proposed changes would need to be published on our website for at least 20 business days and relevant submissions must be considered by the AER.
5. TNSPs will be required to submit a CAM or a revised CAM to the AER within 6 months of being requested to do so by the AER. This is in line with our Cost Allocation Guideline (transmission). However, in the future we may consider amending this timeframe to align more closely with our draft EII Cost Allocation Guideline.
6. Any NO that does not currently have an approved CAM should engage early with the AER so that it submits its proposed CAM in time and has an approved CAM in place before it submits its non-contestable revenue proposal.
7. The CAMs for TNSPs will be reviewed as part of each annual revenue adjustment proposal or revenue determination as per section 4.3 of the Cost Allocation Guideline (transmission). All other NO's CAMs will also be reviewed in a similar manner. This review will be an informal process conducted by the AER to check if the CAM remains relevant.
8. The AER will look to amend any sections in the NER Cost Allocation Guideline (transmission) that refer to NER clauses outside rules 6A.19 and 6A.21 (such as Section 5.1). These will be replaced with references to clauses under EII Chapter 6A for NOs, where relevant.

Box 3.1.1 – Summary of cost allocation requirements

In summary, for TNSPs providing EII regulated transmission services:

- They must apply the Cost Allocation Guideline (transmission). A TNSP must also allocate its prescribed transmission services into shared and direct costs. This must be then further divided into EII regulated transmission services and prescribed (or NER) transmission services as per Section 3.3 of this Guidance Note.
- Until our EII Non-Contestable Guideline and EII Contestable Guideline are updated to reflect the Chapter 9A changes, any references to the EII Cost Allocation Guideline in these guidelines or in EII Chapter 6A, should be regarded as a reference to the Cost Allocation Guideline (transmission).
- Revised or new CAMs must be submitted to the AER within 6 months of being requested to do so by the AER. This may change to 60 business days when the Cost Allocation Guideline (transmission) is updated to reflect the Chapter 9A changes.

In summary, for all other NOs providing EII regulated transmission services:

- They must continue to apply the draft EII Cost Allocation Guideline. DNSPs with an existing approved CAM will need to amend it to align with both the NER and the draft EII Cost Allocation Guideline. This amended CAM will then need to be submitted to the AER for approval under both the EII Act and the NER (however only one submission is required).
- If a NO becomes a registered TNSP, it must then amend its CAM to be in line with the Cost Allocation Guideline (transmission) and refer to the points above. This revised CAM must be submitted to the AER within 6 months of being required to do so by the AER.
- Following our amendments to the EII Non-Contestable Guideline and EII Contestable Guideline, any reference to the Cost Allocation Guideline (transmission) should be regarded as a reference to the draft EII Cost Allocation Guideline.
- A CAM must be submitted to the AER at least 60 business days before the NO's non-contestable revenue proposal is due to the AER.

3.2 Changes to ring-fencing requirements

The Chapter 9A changes relating to ring-fencing and its interaction with other relevant guidelines and clauses are noted below:

1. Clause 9A.13.5 provides for the Ring-Fencing Guideline (Electricity Transmission) to apply to the provision of EII regulated transmission services by TNSPs.
2. As Clause 9A.13.5 does not apply to other NOs (not TNSPs) providing EII regulated transmission services, this Guidance Note clarifies that they should follow the draft EII Ring-Fencing Guideline. Ausgrid's submission to our draft Guidance Note stated that the draft EII Ring-Fencing Guideline was published under the now repealed clause 42, and therefore continuing both the EII and NER ring-fencing obligations creates compliance duplication without clear benefits.[17] The AER will continue to apply the draft EII Ring-Fencing Guideline as it contains unique clauses specific to EII regulated transmission services and it is referenced in the draft EII Cost Allocation Guideline. The AER recognises that this is administratively burdensome and currently there is a gap in Chapter 9A of the NER in NSW which creates this duplication. However, we understand

[17] Ausgrid's submission to the AER on the draft Guidance Note, 25 February 2025

NSW is aware of the gap and is looking to rectify it. EnergyCo's submission noted that the policy intent of the EII Act is that EII projects could be either transmission or distribution and there could be circumstances that a DNSP is providing EII regulated transmission services. EnergyCo further stated that the NSW Government is reviewing the regulatory framework to carry out the required reforms, and this may involve us reconsidering our positions as set out in this Guidance Note.[18] In the meantime, all NOs that are not a registered TNSP must apply the draft EII Ring-Fencing Guideline.

3. As a DNSP is not included in rule 9A.13, it will require waivers for certain sections of the Ring-Fencing Guideline (Electricity Distribution), where applicable.
4. If a NO is then registered as a TNSP under the NER, it will be required to comply with the Ring-Fencing Guideline (Electricity Transmission).
5. The introduction of Clause 9A.13.5 requires us to amend both the EII Non-Contestable Guideline and EII Contestable Guideline to remove references to the EII Ring-Fencing Guideline and instead refer to the Ring-Fencing Guideline (Electricity Transmission). Once we make these amendments, other NOs (not TNSPs) should consider any reference to the Ring-Fencing Guideline (Electricity Transmission) to be the draft EII Ring-Fencing Guideline.
6. Clause 9A.13.7(a)(1) in Chapter 9A gives us discretion to amend the Ring-Fencing Guideline (Electricity Transmission) to address its application to a TNSP that provides EII regulated transmission services. The proposed changes would need to be published on the AER's website for at least 20 business days and relevant submissions must be considered by the AER.
7. NOs will be required to report to the AER annually and submit a report within 4 months of the end of the calendar year as per section 6 of the ring-fencing guidelines. This requirement applies to all NO that are subject to ring-fencing requirements within that calendar year (even if it is only for part of the year).
8. A TNSP providing EII regulated transmission services will be required to ensure any new or varied agreements between the TNSP, and a service provider will require the service provider to comply with clauses 4.1, 4.2.1 and 4.3 of the Ring-Fencing Guideline (Electricity Transmission) as per clause 4.4 of the same guideline. This includes any agreements with service providers providing EII regulated transmission services or assisting with the provision of these services (even if these services are contestably procured). This applies to all new and varied agreements entered into by the TNSP, following its registration as a TNSP.

Box 3.2.1 – Summary of ring-fencing requirements

In summary, for TNSPs providing EII regulated transmission services:

- They must apply the Ring-Fencing Guideline (Electricity Transmission) and report annually to the AER as per Section 6 of that guideline.
- They must distinguish between EII regulated transmission services and prescribed (or NER) transmission services as per point 3 in Section 3.3 of this Guidance Note.
- They must ensure their new and varied contracts (following their registration as a TNSP) with service providers assisting with the provision of, or providing EII regulated transmission services, requires the service provider to comply with clauses 4.1, 4.2.1 and

[18] EnergyCo submission to the AER on the draft Guidance Note, 6 March 2025

4.3 of the Ring-Fencing Guideline (Electricity Transmission), as per clause 4.4 of that guideline.

In summary, for all other NOs providing EII regulated transmission services:

- They must apply the draft EII Ring-Fencing Guideline and report annually to the AER as per Section 6 of that guideline.
- If the NO registers as a TNSP it will be required to apply the Ring-Fencing Guideline (Electricity Transmission) and refer to the points above.

3.3 Other issues relevant to NOs

1. Any reference to Clause 42 of the EII Regulations in our EII Contestable Guideline and EII Non-Contestable Guideline or EII Chapter 6A should be disregarded. Where it is stated that we will develop a EII Ring-fencing Guideline, it should be considered that a final version of this will not be developed. Instead TNSPs and all other NOs providing EII regulated transmission services will be subject to the Ring-Fencing Guideline (Electricity Transmission) and draft EII Ring-fencing Guidelines, respectively.
2. DNSPs providing EII regulated transmission services can use an existing CAM approved under the NER as the basis for its EII CAM. This is clear under clause 3.2.1 of the draft EII Cost Allocation Guideline which allows a DNSP to apply clause 4.2(c)(1) of the Cost Allocation Guideline (distribution) to incorporate an EII project. Clause 3.2.2 of the draft EII Cost Allocation Guideline would then require further analysis of the EII regulated transmission services.
3. For TNSPs, clause 9A.13.5 effectively combines EII and NER services as prescribed transmission services without distinguishing them. We require (via this Guidance Note), the TNSP to distinguish between EII regulated transmission services and prescribed (or NER) transmission services. This should be defined as a category of transmission service as per the Cost Allocation Guideline (transmission) (e.g. the categories of transmission services in a TNSP's CAM could include prescribed transmission services, EII regulated transmission services, negotiated transmission services and unregulated services/other services).

The AER recognises that this is a short-term solution and as a more permanent solution the Cost Allocation Guideline (transmission) could be amended under clause 9A.13.6(a)(1) to address its application to a TNSP which provides EII regulated transmission services.

3.4 Other issues specific to other NOs (not TNSPs)

NOs that are not TNSPs are the focus of this section. These include:

1. **CAM requirements if the NO has no pre-existing CAM:** If a NO does not have a pre-existing NER CAM, it must develop a new CAM that satisfies all requirements of the draft EII Cost Allocation Guideline and contains all elements listed in Section 3.1 of that guideline.
2. **NER status of a CAM approved under the draft EII Cost Allocation Guideline:** A CAM approved by the AER under the draft EII Cost Allocation Guideline must also be approved under the NER to be used for NER purposes. This only requires one submission by the NO.
3. **An explanation of Clause 3.2.2 of the draft EII Cost Allocation Guideline:**

   – **An upper bound on the increase in shared costs from accepting an EII project:** Clause 3.2.2 of the draft EII Cost Allocation Guideline relates to NOs that have a NER CAM already approved by the AER. Under this clause, a NO is required to state that its marginal increase in direct costs after including EII regulated activities matches its marginal increase in shared costs.[19] The intention of this clause is to set an upper bound by getting the NO to state that taking on the EII project does not lead to a marginal increase in shared costs that exceeds the marginal increase in direct costs.

Box 3.4.1 – Example of the upper bound under clause 3.2.2

The below is an example of shared cost calculations for a DNSP:

- A DNSP takes on an EII project that causes its direct costs to increase from $5 billion to $7 billion. This leads to a marginal increase to direct costs of $2 billion.
- $2 billion is now the upper bound of how high the marginal increase in shared costs can be.
- The DNSP's shared costs then increase from $2 billion to $3 billion. This leads to a marginal increase of $1 billion which is below the upper bound.
- If the DNSP had an increase to $6 billion in shared costs, then this would exceed the upper bound and the DNSP should discuss its shared cost calculations further with the AER.

– **Shared Cost Allocator:** Further to the calculation of shared costs is the notion of a shared cost allocator.[20] A NO may claim weights associated with revenue as its shared cost allocator. If the weights are not accurately nominated, it is possible that an allowed shared cost in a previous NER determination gets double counted in a future NER or EII determination.

Box 3.4.2 – Example of shared cost allocator in practice

The below follows on from the example in Box 3.4.1:

- A DNSP's shared costs have increased from $2 billion to $3 billion due to EII activities.
- The DNSP then claims weights associated with the revenue as its shared cost allocator, 33.33% for EII activities and 66.67% for NER activities.
- The shared cost attributable to the EII and NER then becomes $1 billion (33.33% of $3 billion) and $2 billion (66.67% of $3 billion) respectively.

– **AER's approach to satisfy Clause 3.2.2:** The AER therefore asks NOs to provide a statement confirming that the NO's marginal increase in shared costs as a result of including EII regulated activities, is less than or equal to its marginal increase in direct costs. The AER also expects that a NO unable to make this statement should consult further with the AER on its methodology for calculating shared costs. Further, the NO should ensure their shared cost allocator and corresponding weights are consistent with previous and future NER and EII determinations. Ausgrid's submission to our draft Guidance Note asked the AER to reconsider the wording of clause 3.2.2 as it appears

[19] A CAM outlines how the costs incurred by an NO are attributed to the different services provided by the NO such as EII regulated activities, other regulated activities and services and other (unregulated) activities and services. Costs are classified as direct costs, that are clearly attributable to a service type, or shared costs that need to be allocated to different service types.

[20] See for example Clause 2.1.1.2(b)(3)

open to interpretation and to update this when finalising the draft EII Cost Allocation Guideline. The AER will reconsider this after the NSW Government finalises its reforms, which should provide guidance on whether we finalise the draft EII Cost Allocation Guideline, or whether equivalent NER guidelines will apply.

4. **Timing of CAM submission under draft EII Cost Allocation Guideline:**

- A CAM must be submitted at least 60 business days before the NO's revenue proposal is due to the AER (for an initial determination[21] and subsequent determinations[22]) and the AER is required to approve or refuse the NO's submitted CAM within 30 business days of its submission. If the AER fails to meet this deadline, the submitted CAM will be taken to be approved.[23]
- This is notably different from the rules pertaining to a DNSP submitting a CAM under the Cost Allocation Guideline (distribution), which states that a DNSP must submit a CAM within 6 months of being required to do so by the AER[24] and that the AER is required to approve or refuse the DNSP's submitted CAM within 6 months of its submission. The submitted CAM would then be taken to be approved if the AER failed to meet this deadline.[25]

5. **Treatment of DNSPs' REZ services under Ring-fencing Guidelines (Electricity Distribution):** Ausgrid's submission noted that EII regulated transmission services are not designated as Direct Control Services (DCS) for the purposes of the Ring-fencing Guidelines (Electricity Distribution). Therefore, it noted that these services could be classified as contestable electricity services, which in turn means that Ausgrid acting as a NO under the EII Act could be subject to onerous separation requirements despite EII regulated transmission services being regulated. Ausgrid also states that a waiver under the Ring-fencing Guideline (Electricity Distribution) could be a short-term measure, but a longer-term measure would be to amend the guideline so that REZ services are excluded from the definition of "other distribution services". [26] The AER agrees with Ausgrid and notes that in the short-term, either individual or class waivers could be considered upon application. We will also engage with NSW when it develops its reforms to the regulatory framework and discuss whether a long-term solution is available as part of its reform package or whether we should pursue an amendment to the Ring-fencing Guidelines (Electricity Distribution).

3.5 Updates to Guidance Note

This version of the Guidance Note is based on Chapter 9A published on 13 December 2024. The AER will endeavour to update this Guidance Note in alignment with any relevant reforms to the regulatory framework foreshadowed by EnergyCo in its submission.

[21] Section 3.3.1, p.11 of the Draft EII Cost Allocation Guideline

[22] EII Ch6A, Clause 6A.19.4.(a)(3)

[23] Section 4.1.2, p.12 of the Draft EII Cost Allocation Guideline

[24] Clause 3.3.(a)(2), p.13 of the NER DNSP Cost Allocation Guideline

[25] Clause 4.1.(e), p.14 of the NER DNSP Cost Allocation Guideline

[26] Ausgrid's submission to the AER on the draft Guidance Note, 25 February 2025

Glossary

Term	Definition
Australian Energy Regulator	has the meaning set out in the National Electricity Law.
Cost Allocation Guideline (Transmission)	Electricity transmission network service providers Cost allocation guidelines, September 2007
Cost Allocation Guideline (Distribution)	Electricity distribution network service providers Cost allocation guidelines, June 2008
CAM	means Cost Allocation Methodology as per clause 6A.19.4 of EII Ch 6A or clause 6.15.4(b) or clause 6A.19.4 of the National Electricity Rules.
Distribution Network Service Provider (DNSP)	means a person who owns, controls, or operates, or proposes to own, control or operate distribution network infrastructure under the NER or EII Act.
Draft EII Cost Allocation Guideline	Cost Allocation Guideline - *Electricity Infrastructure Investment Act* – Draft, August 2023
Draft EII Legal and Functional Separation Guideline (Draft EII Ring-Fencing Guideline)	Legal and Functional Separation Guideline – *Electricity Infrastructure Investment Act* – Draft, August 2023
EII Act, the Act	Electricity Infrastructure Investment Act 2020 (NSW).
EII Ch 6A	is an appendix to the EII Non-Contestable Guideline and substantially mirrors Chapter 6A of the National Electricity Rules.
EII Contestable Guideline	Revenue determination guideline for NSW contestable network projects, August 2022
EII Non-Contestable Guideline	Guideline - Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects, July 2024
EII Regulated Transmission Service	has the meaning set out in Chapter 9A of the National Electricity Rules.
EII Regulation	Electricity Infrastructure Investment Regulation 2021 (NSW) made under the EII Act.
Guideline	Final Guideline – Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects, April 2023.
Regulator	a Regulator under the EII Act.
National Electricity Law	means the National Electricity Law set out in schedule to the National Electricity (South Australia) Act 1996.
National Electricity Clauses	means the clauses, as defined in the National Electricity Law.
National Electricity Rules (NER)	Means the National Electricity Rules made by the Australian Energy Market Commission under the National Electricity Law.
Network Operator (NO)	means a person who owns, controls, or operates, or proposes to own, control or operate, network infrastructure under the NER or EII Act.
Network Service Provider (NSP)	Means a person who owns, controls, or operates, or proposes to own, control or operate distribution or transmission network infrastructure under the NER.
Ring-Fencing Guideline (Electricity Transmission)	Ring-fencing Guideline Electricity Transmission, Version 5, February 2025
Ring-Fencing Guideline (Electricity Distribution)	Ring-fencing Guideline Electricity Distribution, Version 4, February 2025
Transmission Network Service Provider (TNSP)	Means a person who owns, controls, or operates, or proposes to own, control or operate transmission network infrastructure under the NER or EII Act.