AUSTRALIAN ENERGY REGULATOR

July 2026

AER workshop: Summary of stakeholder feedback

Review of ring-fencing and shared asset guidelines – networks, related entities and network representative bodies

- **What:** Stakeholder workshop on the AER's review of the Ring-fencing Guideline (electricity distribution) and Shared Asset Guidelines.
- **When:** Wednesday, 15 July 2026, 10:00 am – 12:00 pm AEDT.
- **Where:** Online (Microsoft Teams).
- **Who:** Representatives from electricity distribution and transmission network businesses, related entities and network representative bodies, together with AER facilitators and observers.
- **How:** Guided discussion facilitated by AER staff, with additional input provided through the Microsoft Teams chat. A transcript was recorded for AER internal purposes.
- **Why:** The purpose of the workshop was to obtain practical feedback on how the Ring-fencing Guideline and Shared Asset Guideline are operating, including what is working, what is not working and what may need to change.

Background

- The workshop formed part of the AER's initial consultation on its joint review of the Ring-fencing Guideline (electricity distribution) and Shared Asset Guideline.
- The review is considering whether the guidelines continue to manage the risks of cross-subsidisation, discriminatory conduct and unfair competitive advantage, while ensuring consumers receive an appropriate share of the benefits arising from the use of regulated assets.
- The workshop used practical examples and scenarios to support informed discussion of how the current arrangements operate in practice, whether the identified problems are material, the outcomes the guidelines should support and which aspects of the arrangements may need to change.
- This consultation summary reflects the views of stakeholders which were shared with the AER during the session. The summary was prepared by the AER based on the transcript of the discussion.

What we heard from stakeholders

Discussion 1 – Related electricity service provider (RESP)

Stakeholders sought greater clarity and evidence about how the concept of a related electricity service provider applies to parts of a DNSP providing negotiated or unregulated distribution services. There was limited support for applying the current functional separation framework uniformly to negotiated or unregulated distribution services.

Specifically, stakeholders noted:

- Negotiated distribution services remain relatively uncommon, and the limited number of current examples should be recognised when considering broad changes to their treatment.
- Greater clarity is needed about the types of unregulated distribution services currently provided by DNSPs, particularly services other than access-related services. The AER should provide concrete examples and supporting evidence when identifying concerns about how negotiated and unregulated distribution services are currently being delivered.
- Functional separation may impose disproportionate costs where a negotiated distribution service has low expected demand, limited third-party interest, a regulated or negotiated pricing framework and an available dispute-resolution mechanism.
- Issues may arise for dual-function assets, where a DNSP must first identify assets used to provide both regulated and unregulated services, determine the relevant services and assess their materiality before establishing whether the guideline applies.

Discussion 2 – Functional separation & RESPs

Stakeholders held differing views on the effectiveness of the current functional separation requirements in the ring-fencing guideline. Some stakeholders considered the existing functional separation requirements clear and viewed identified issues as matters of compliance or enforcement. Others considered that requirements such as branding and cross-promotion restrictions may impede access to emerging services.

Specifically, stakeholders noted:

- The current functional separation requirements are generally clear, prescriptive and capable of being implemented.
- The review should distinguish deficiencies in the guideline's design from non-compliance, enforcement issues and unsupported stakeholder perceptions. For example, the use of DNSP-branded vehicles or clothing, or breaches of branding and cross-promotion restrictions, should be treated as compliance matters where the underlying obligations are otherwise clear.
- Branding and cross-promotion restrictions may create barriers to emerging services where a DNSP cannot direct a potential customer to the relevant part of its business or affiliated entity that provides the service. This risk may be particularly relevant where the service is new and potential users may not otherwise know that it is available or how to access it.

- The costs and benefits of functional separation may differ depending on whether the service is provided by a legally separate affiliate or by a part of the DNSP providing a negotiated or unregulated distribution service.
- Concerns that related service providers obtain an unfair advantage by drawing on DNSP staff should be supported by evidence and considered in the context of the relevant market.
- Differences in organisational scale exist throughout competitive markets and are not necessarily caused by affiliation with a DNSP.
- DNSP staff may carry substantial overhead and cost-allocation charges, which can make their services more expensive than services provided by external contractors.
- DNSPs may be unable to discount internally supplied services below the applicable allocated cost, which can make a related service provider less competitive rather than more competitive.
- In some circumstances, a DNSP may nevertheless be the only organisation with the scale, geographic coverage or specialised capability required to provide a particular service.
- Functional separation may be premature where a DNSP is undertaking feasibility studies, planning or preliminary development work and has not yet determined whether a service will be offered.

Discussion 3 – Ring-fencing waivers

Stakeholders generally supported retaining a waiver framework and considered waivers to be a necessary feature of the guideline. The main reform suggestions concerned streamlining low-risk applications and ensuring that waiver duration supports practical commercial arrangements.

Specifically, stakeholders noted:

- DNSPs invest considerable time and resources in preparing waiver applications and will generally only apply where they believe they can demonstrate consumer benefits and consistency with the National Electricity Objective.
- The granting of waivers where the relevant tests are met should be viewed as an intended feature of the framework rather than evidence that it is failing.
- A streamlined waiver process could be considered where an activity is externally funded and the DNSP can demonstrate that regulated customers are not funding the activity.
- Any streamlined process should remain subject to an assessment of whether the activity is consistent with the National Electricity Objective and produces benefits for consumers. Streamlining may be particularly appropriate where there is no cross-subsidisation risk and the principal remaining issue relates to competition impacts.
- Waiver duration can constrain the length of contracts that retailers or other service providers are willing to enter into with customers. A third party may be reluctant or unable to contract with customers beyond the expiry date of the underlying waiver.
- The ability to grant waivers beyond a five-year regulatory control period is beneficial but does not remove all commercial uncertainty associated with fixed waiver periods.

- Repeatedly seeking extensions may be inefficient where the relevant service, circumstances and risks have not materially changed.
- In some circumstances, a waiver may provide an interim mechanism until a service can be considered through the next service-classification process.

Discussion 4 – Shared assets, materiality and benefit sharing

Stakeholders noted that the current shared asset arrangements may not be achieving their intended incentive objective or providing consumers with an appropriate share of benefits. Stakeholders raised concerns that the one per cent materiality threshold and interaction with service classification may weaken incentives to maximise asset utilisation and limit benefits returned to consumers.

Specifically, stakeholders noted:

- The Shared Asset Guideline should encourage DNSPs to maximise the productive use of consumer-funded assets while ensuring that electricity consumers receive an appropriate share of the resulting benefits. The one per cent materiality threshold may undermine this objective by encouraging DNSPs to keep unregulated revenue below the threshold and should therefore be reviewed.
- The one per cent materiality threshold may create a perverse incentive for a DNSP to keep unregulated revenue below the threshold so that no revenue-sharing adjustment applies.
- A single materiality threshold and benefit-sharing ratio may not be appropriate for all asset types and services. A more differentiated framework could place different asset uses along a spectrum according to the characteristics of the asset and service. Relevant characteristics could include the source of funding, the degree of consumer contribution, the commercial risk borne by the DNSP, the type of service, the extent of competition and the benefits returned to consumers.
- Arrangements under which all additional revenue is returned to consumers and arrangements under which only a smaller proportion is shared may represent different ends of the same spectrum.
- The review should balance incentives for DNSPs to invest in and utilise shared assets with the need to return appropriate benefits to consumers. Classifying and regulating all services provided using a network asset may reduce or eliminate the unregulated revenue available for sharing under the Shared Asset Guideline.
- Regulating a service—for example, by classifying it as a negotiated distribution service and limiting charges to the assessed efficient cost—may remove the opportunity to earn a margin that could otherwise be shared with consumers. Where this price is below the DNSP's actual cost, it may also reduce incentives to promote or provide the service, leading to lower asset utilisation and fewer consumer benefits.
- The framework should consider who ultimately receives the benefit of lower prices or improved access. Where existing consumers have funded an asset, the principal objective should be to ensure that the resulting benefits support their long-term interests rather than principally benefiting third-party businesses seeking to use network facilities.

Discussion 5 – Compliance, monitoring and benefit sharing

Stakeholders considered the existing reporting framework broadly robust but sought clearer AER guidance, more consistent reporting across DNSPs, improved accessibility of information and more timely feedback on reported breaches.

Specifically, stakeholders noted:

- Public commentary that ring-fencing reporting is unaudited or lacks rigour is inaccurate. Annual compliance reports are independently assessed, DNSPs provide additional information through regulatory information notices and other reporting processes, and required staff-sharing and related registers are published on DNSP websites.
- Before annual independent assessments commence, the AER should provide clearer guidance on its current compliance priorities and the matters it expects auditors to examine. Guidance could identify known areas of concern, recurring breaches, trends and matters arising from the previous year's reports.
- There appears to be inconsistency in the level of detail included in registers published by different DNSPs. Some DNSPs may be providing substantially more information than others, and the expected level of detail is not always clear. Greater clarity is needed about the purpose of each register and the regulatory value of the information being requested.
- The value obtained from registers should be assessed against the resources required to prepare and maintain them. Some DNSPs take a conservative approach and report potential breaches even where the matter may be minor or uncertain.
- There are delays of several months in acknowledging or responding to reported breaches reduce confidence that the information is being actively reviewed. Timely AER feedback would help DNSPs understand whether further information, investigation or rectification is required.
- The AER previously published annual ring-fencing compliance reports that identified sector-wide trends and regulatory priorities. These reports were useful in helping DNSPs target future compliance, reporting and assurance activities.

Other feedback outside of the scope of this review

Stakeholders raised concerns that ring-fencing, service classification, cost allocation and shared-asset arrangements cannot be considered entirely in isolation. Although stakeholders accepted that some issues fall outside the formal scope of the guideline review, they considered those interactions important to the effectiveness of any reforms.

Specifically, stakeholders noted:

- The interaction between the activity–service distinction, ring-fencing requirements and the allocation of costs through a DNSP's cost allocation method requires further clarification.
- Broader questions about how the waiver framework interacts with service classification and emerging services should also be considered through the AEMC's Electricity Network Regulation Review.

- The definition of a distribution service and the distinction between a service and an activity require further consideration.
- Waivers may be used as an interim mechanism between regulatory determinations, but this depends on the availability of an appropriate longer-term classification pathway.
- The assessment of emerging services should consider whole-of-system outcomes and the distribution of benefits between network customers, service users and third-party businesses.