Electricity Distribution Ring-fencing Guideline update – Summary of workshop with Accredited Service Providers

10 October 2019

Attendees

- National Electrical and Communications Association (NECA)
- Elect Energy
- Wilken Group
- ARA Electrical
- TOBCO
- Connect Infrastructure
- Plus ES
- Infinite Energy

Meeting notes

Accredited Service Providers (ASPs) and NECA raised a number of points with AER staff covering the following aspects of the Electricity Distribution Ring-fencing Guideline:

Discrimination

- ASPs noted that DNSPs are sometimes substantially delayed in making payments for invoices to ASPs. They suggested that the AER should examine whether affiliates are generally paid in a more timely way than their competitors in the electrical contracting sector.
- ASPs noted that in some cases affiliates of the DNSP are the only ASP authorised by the DNSP to do some specific types of work that should be contestable (e.g. splicing work). This means that ASPs must hire the DNSP's affiliate to do this work for them. ASPs noted that this appears to be discriminatory, as there may be other ASPs who are capable of performing these types of contestable works.
- ASPs noted that some customers have in the past hired the affiliate of the DNSP and paid a premium on the expectation that the affiliate could get work done more quickly, due to their relationship with the DNSP. This perception harms competition.
- ASPs noted that affiliates of the DNSP have in the past appeared to negotiate planned outages with the DNSP (which are necessary to perform contestable work) within relatively short timeframes compared to competitor ASPs. ASPs stated that they must typically wait weeks to months for an outage, and this delay can cause increased costs or loss of potential work. ASPs questioned whether the incidence of cancelled planned outages is as frequent for affiliates of the DNSP as it is for ASPs.

Cost allocation

- ASPs questioned whether DNSPs and their affiliates are correctly allocating the cost of shared staff. They suggested that independent assessors, who audit DNSP compliance annually under the Guideline, should check to ensure that rates at which DNSP staff are charged out for use by the affiliate are not under-priced.

- ASPs enquired whether the charge-out rate for DNSP staff that are shared with the affiliate includes down time. If all down time may be cost allocated to the DNSP there may be a cross-subsidy. For example, ASPs noted that planned outages on the network can cost a lot of money in staff time when they are not done according to an agreed schedule with the DNSP. ASPs questioned whether affiliates must pay for this kind of down time with respect to staff that are shared between the affiliate and the DNSP.
- ASPs enquired whether materials and equipment that are shared between the DNSP and the affiliate are correctly cost allocated. They questioned whether the internal charge-out rates that an affiliate might pay to a DNSP for a shared truck are comparable with market truck hire rates.
- ASPs noted that some DNSPs appear to be using their purchasing power to source materials and equipment at significantly below market rates. ASPs stated that materials and equipment appear to be on-sold by the DNSP to its affiliate at no mark-up. ASPs stated that the affiliate on-sells these materials to ASPs with a mark-up, but still sell at prices below market rates. ASPs observed that the affiliate appears to make a profit while undercutting manufacturers and other materials and equipment retailers. ASPs expressed concerns at how method of cost-allocation and whether this constituted cross-subsidisation.

<u>Office sharing</u>

- ASPs noted that some DNSPs share offices with their affiliates. They noted that some staff of the DNSP and the affiliates share lunch rooms. This makes it too easy for staff of the affiliate to gain an advantage in markets for contestable electrical services, where they can easily talk to DNSP staff about work-related issues in the course of the working day.

<u>Staff sharing</u>

ASPs noted that some staff sharing arrangements between the DNSP and the affiliate result in discriminatory outcomes. They provided two examples:

- Some of the DNSP linesmen that are shared with the affiliates can do network switching. This means that they can work on a contestable job for the affiliate, and then perform network switching for the affiliate as regulated staff. All other ASPs must wait for the DNSP to perform switching. This staff sharing arrangement appears to provide a discriminatory advantage because the affiliate can access network switching services from the DNSP more quickly and easily than their competitors.
- At present ASPs are not authorised to do live line work on the Endeavour Energy and Ausgrid networks. However, staff of the DNSP that are shared with the affiliate can do live line work. This means that the affiliate is the only ASP that is able to do live line work. This gives them a significant cost advantage when competing to do work for customers. All other ASPs must wait for the DNSP to perform an outage to do the same work, which adds to the cost of performing work for a customer.

<u>Branding</u>

- ASPs noted that, where a DNSP shares the same building as an affiliate, the branding of the DNSP and the affiliate can appear together in the lobby of the building in a way that gives an impression that the two businesses are related. This reinforces a perception amongst customers that when they hire the affiliate they are getting extra advantages because of potential preferential treatment of the affiliate by the DNSP.