



31 January 2020

Ms Sarah Proudfoot
General Manager, Consumers and Markets
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

By email: ringfencing@aer.gov.au

Dear Ms Proudfoot

Re: Transmission ring-fencing guidelines discussion paper

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) discussion paper on assessing transmission ring-fencing arrangements.

We support the AER updating and strengthening the ring-fencing obligations that apply to incumbent Transmission Network Service Providers (TNSP) to support the development of competitive markets for contestable services.

We broadly support the alignment of the transmission ring-fencing guideline with the current distribution ring-fencing guideline. We also consider that the ring-fencing arrangements should:

- not result in stifling of innovation in new and emerging services
- support competition for transmission connection services.

These matters are discussed below.

Emerging services

We consider that there are many benefits that can flow from network service providers, together with third parties including affiliates, providing contestable services. As the AER rightly acknowledges, the involvement of network service providers can provide efficiencies that can benefit customers.

The examples of ElectraNet, AusNet Services and TransGrid in relation to grid scale batteries and frequency control ancillary services highlight the innovation undertaken by incumbent TNSPs in a fast-paced evolving market. Customers are likely to benefit in the longer term from these initiatives.

Both distributors and incumbent TNSPs should be able to provide these services if underpinned by appropriate allocation of costs. Unfortunately, the distribution ring-fencing guidelines are unclear whether or not these contestable services are permissible (e.g. batteries on the low voltage network with capacity shared with retailers). Some are clearly excluded as a result of the Australian Energy Market Commission's contestability of energy services rule change.¹ Ideally, distributors and incumbent TNSPs would be treated in a similar manner, and the respective ring-fencing guidelines be flexible to accommodate the ongoing change to the industry.

¹ Distributors cannot put costs associated with assets behind the meter in the regulatory asset base. Refer AEMC, National Electricity Amendment (Contestability of energy services) Rule 2017, Rule Determination, 12 December 2017.

Contestability of connections

We consider that the implementation of stricter ring-fencing arrangements for incumbent TNSPs should reduce the risks associated with privileged access to information, discrimination and incorrect allocation of costs in favour of an unregulated affiliate.

Where a connection to the distribution network involves works at the terminal station, we will inform the incumbent TNSP of the connection. Should there be a change in the planning responsibility for the transmission network in Victoria, then the incumbent TNSP will also be advised of all large generator connections to the grid to enable an assessment of system strength.

We support the ring-fencing arrangements reducing any potential harm from the incumbent TNSP either passing on privileged information that it receives to its unregulated affiliate, or using the information themselves to secure competitive connections to the grid.

The ring-fencing guideline should also prevent the incumbent TNSP acting in a discriminatory manner when providing offers to customers to undertake works on the regulated transmission network. For example, if a connection involves works at the terminal station, then the incumbent TNSP should provide offers that are consistent whether or not the customer is an affiliated entity, a distributor or themselves in relation to:

- price, including with a breakdown of costs
- non-price terms and conditions, such as timeframes for delivery, quality of service and variations

Ring-fencing could further support competition for competitive connection services by requiring a clear breakdown of costs in an offer, which would assist an end customer in comparing offers involving regulated and unregulated works and reduce the risk of cross-subsidisation by an incumbent TNSP. It could also require that the incumbent TNSP provide proforma connection contracts for regulated works, to remove the risk of discrimination in non-price terms and conditions.

Should you have any queries about this letter please do not hesitate to contact Elizabeth Carlile on (03) 9683 4886 or ecarlile@powercor.com.au.

Yours sincerely,

Renate Vogt

**General Manager Regulation
CitiPower, Powercor and United Energy**