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Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Email: Ringfencingguideline2016@aer.gov.au

Dear Mr Pattas

Submission on the Draft Electricity Ring-Fencing Guideline – Exposure Draft

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Draft Electricity Ring-Fencing Guideline – Exposure Draft* (the Exposure Draft). This submission is provided by Ergon Energy, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland.

Ergon Energy has worked collaboratively with Energy Networks Australia (ENA) in reviewing the Exposure Draft and supports the comments and proposed drafting changes recommended by the ENA. Notwithstanding this, due to the financial and operational impacts that would result for Ergon Energy as a consequence of the proposed *regional office* definition, we strongly recommend that the AER consider an alternative definition of the term. Please see below our detailed reasons for this and a suggested alternative definition of *regional office* which we consider will improve the operability of the Ring-Fencing Guideline, without derogating from its intent.

Fundamentally, Ergon Energy considers the AER has made a positive step in creating a definition of *regional offices* and by allowing regional offices an exemption from complying with the physical separation/co-location obligations as set out in clause 4.2.1 of the Exposure Draft. However, Ergon Energy considers that the proposed definition of *regional office* will be difficult to interpret with certainty and will therefore affect the operability of the Ring-Fencing Guideline. Specifically, it will be extremely difficult to define a population relative to an area encompassing a particular office as in certain cases this would require data requests to multiple local government and other entities to accurately confirm population numbers relative to the defined area. While DNSPs such as Ergon Energy keep records of customer numbers serviced by each of our depots, this does not directly correlate with population numbers.

Furthermore, mere proximity to a depot is not of itself indicative of the service being provided by that depot. Toowoomba has a population of approximately 161,970 as at June 2015. The current definition of *regional office* would result in Ergon Energy's depot at Millmerran, which services 2439 customers and is only just located within a 100km radius of Toowoomba, not meeting the definition of a *regional office*. This is despite the fact that the Millmerran office would not be providing services to customers in Toowoomba or its immediate surrounds. Nor is there any likely competition for the provision of those services that would necessitate compliance with the physical separation/co-location requirements prescribed in clause 4.2.1 of the Exposure Draft.

Implementing an arbitrary demarcation based on population and location, we believe, will inadvertently capture depots such as those referred to above where there is little or no competition; thereby extending the reach of ring-fencing to areas where there is very little or no chance of the occurrence of the harm that ring-fencing seeks to avoid. If the definition does not change, Ergon Energy will be required to submit waiver applications which will result in increased cost and uncertainty for impacted parties.

Ergon Energy therefore strongly recommends the AER consider an alternative definition of *regional office*, which as stated above, will improve the operability of the Ring-Fencing Guideline, without derogating from its intent. We consider the definition should remove the locational and population aspects and instead be based on customer numbers only. Accordingly, Ergon Energy suggests the following definition for *regional office*:

Regional office means an office that services less than 50,000 customers.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416, or Trudy Fraser on (07) 3851 6787.

Yours sincerely



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