



825 Ann Street, Fortitude Valley QLD 4006
PO Box 264, Fortitude Valley QLD 4006

ergon.com.au

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Sent by email

Re: *Electricity Ring-Fencing Guideline Preliminary Positions Paper (Preliminary Positions Paper)*.

Dear Sir/Madam,

Ergon Energy Queensland Pty Ltd ("Ergon Retail") welcomes the opportunity to provide this submission to the Australian Energy Regulator (AER) on its Preliminary Positions Paper. This submission is made in Ergon Retail's capacity as a retailer.

Ergon Retail is a fully owned ring-fenced subsidiary of Ergon Energy Corporation Ltd ("Ergon Network"). Ergon Retail is a proud Queensland business that provides electricity to more than 700,000 homes and businesses. Ergon Network has a number of waivers from its ring-fencing obligations around shared IT services, Human Resources and some other administrative staff.

As an organisation that has been ring-fenced from a regulated DNSP from its inception, Ergon Retail is generally supportive of the broad principles of ring-fencing in providing a level playing field for all participants in a competitive market. We would however caution that subject to the service in question, competition is not consistent across the NEM. There are regions where it is (or will be) uneconomic for competitors to operate. The ring-fencing guidelines, however well intended should not preclude or severely limit the ability of regional customers from obtaining services available to those living in more densely populated areas.

In broad terms, Ergon Retail supports the application of waivers from ring-fencing obligations where appropriate. We would add that there will likely be customers who due to their location would not be able to receive an offer (no competition) or would only have access to a single offer (no effective competition). The AER should include this as part of the criteria for consideration when assessing a waiver application.

The customer experience

Ergon Retail has customers that are located in regions with low population density, in some cases many kilometres apart from their neighbour. Due to the large distances involved these customers are unlikely to be able to find a competitive offer for advanced meters, solar panels or batteries at a reasonable price, if at all. In order to maintain its network infrastructure, Ergon Network must locate depots, staff and equipment in the regions and therefore is well placed to be able provide the services that the consumer would otherwise not have access to.

Often these customers are located at or near the fringes of the grid, there are benefits to the network of having advanced metering and other grid support devices located in these regions.

Consider the example of a new connection in a fully ring fenced future without waivers, the DNSP would send a truck to finalise the connection. Once the connection related activities are completed the crew would finalise the paper work, pack up and leave the premise. Another truck is then dispatched from a ring fenced entity to install and commission the advanced metering. From the perspective of the customer this is not logical especially given that the skills of the two crews are so transferable. Even if the trucks were arranged to be on-site at the same time this inefficiency of two trucks being on site will appear wasteful to the customer. The trucks and crew may also be wearing the same branding and logos. This is exacerbated in the remote regions where the travel times are greater. Ergon Network services regional Queensland from coastal and rural areas to the remote communities of outback Queensland and the Torres Strait which extends across 97% of Queensland - around 1.7 million square kilometres (including harsh and demanding terrain). We would query the efficacy of a ringed fenced framework that duplicated or inhibited the roll out of services in this unique environment and market.

Efficient regulation

We are encouraged that the AER has regard for the long term interests of the customer as defined in the National Electricity Objective (NEO). As business models for the various services both known and future unknown develop over time, the application of ring-fencing needs to be predictable, adaptable and efficient (cost effective, robust and timely) to ensure the future of the market/s. In other words the Ring-Fencing Guidelines should exist only to the extent that they enhance the NEO and are best practice regulation.

Ergon Network has consistently argued that certain provisions of the current Queensland Ring-Fencing Guidelines no longer support a framework that is minimally disruptive to the provision of core distribution services, whilst not inhibiting competition or the achievement of the National Electricity Objective (NEO). Ergon Retail endorses these sentiments.

New and emerging markets for services

While the retail electricity market is now mature, some of the services contemplated in the preliminary positions paper (such as for advanced metering or battery storage) are only emerging markets. Business models are in their infancy and are in some cases still in development. Public statements from some of the larger retailer's shows that they have made significant investments to prepare for these emerging markets. It is our view that regulation through over-zealous ring-fencing obligations risks stifling or influencing these emerging markets negatively. This would be to the detriment of the customer who stands to benefit greatly from these emerging markets in terms of new and innovative services and greater value from their energy spend.

Ergon Retail's position is that the AER should aim to be as light handed as possible in the first instance and only seek to strengthen the ring-fencing obligations when it can be clearly established that there is a market failure.

Regulatory risk and the difficulties of business planning

With new business models being created and new entrants to the market for these services, it is crucial that the framework for waivers from the ring-fencing guidelines provides certainty for those businesses that are subject to ring-fencing. For example a ring-fenced entity may not be able to offer contestable services to remote customers if it were to have a waiver to utilise staff and equipment from a depot in a remote community, if that waiver was not of a significant length or certainty to allow the business to make that investment decision. Note that the relationship goes beyond the installation of the technology or device but may include maintenance and ongoing support.

This has implications for recruitment and retention of staff, investment in systems and equipment, local service contracts and supply chain logistics.

If you have any questions regarding this submission please contact Gareth Morrah on (07) 3851 6823

Regards,

pp. *John Scully*
John Scully
a/manager Regulatory Affairs

Ben Verdon
A/ General Manager Wholesale Markets
Ergon Energy Queensland

