

30 May 2016

Mr Chris Pattas  
General Manager, Network Regulation  
Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001



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Lodged online at [Ringfencingguideline2016@aer.gov.au](mailto:Ringfencingguideline2016@aer.gov.au)

Dear Mr Pattas

**RE: Issue Paper – AER ring-fencing guideline – preliminary positions paper**

Tasmanian Networks Pty Ltd (TasNetworks) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) preliminary positions paper on the Ring-fencing Guideline (the guideline). We are a Network Service Provider (NSP) providing transmission and distribution network services to more than 280,000 end-use customers throughout Tasmania. This guideline will have significant impacts on both the way we operate our business and ultimately upon customers in Tasmania, and we look forward to engaging with the AER as it continues to develop its position on this matter.

We contributed to and support the positions put forward to the AER by the Energy Networks Association (ENA) on the guideline. In line with the ENA submission, we support the principle that consumers benefit from approaches that enhance competition and certainty. We would like to comment further, particularly in the context of the Tasmanian market, on the nature of the proposed framework and the necessity for flexibility in applying the ring-fencing regime.

We support an efficient and competitive electricity supply industry in Tasmania. However, we are concerned that the ring-fencing guideline may impose additional costs on Tasmanian consumers, while realising little or no benefits. To deliver beneficial outcomes for Tasmanian customers, the AER should carefully consider the up-front costs that will be borne by end-use customers due to introduction of the ring-fencing guideline, relative to any potential benefit. This should include consideration of the following:

- Tasmania has a small decentralised population spread over a diverse geography. The energy supply industry is characterised by limited providers in a number of specialised areas and limited economies of scale in the provision of some services. There is currently no effective retail competition for small customers.
- Any overhead costs associated with ring-fencing obligations are spread over a small customer base, and may be disproportionate to the costs borne by customers in other jurisdictions.
- Negotiations around the Framework and Approach for our next Revenue Determination will be underway prior to the finalisation of the ring-fencing guideline, and the final form of control will not be known until the final decisions.

In the Tasmanian context we are principally concerned with the costs that functional separation (operational and/or physical) may impose on our customers, with potentially little or no benefit in return. As a result, we urge the AER to be mindful of ensuring that the National Electricity Objective is being best achieved on a regional basis, rather than taking a one-size-fits-all approach to the ring-fencing guideline. In considering application of any more onerous requirements, we encourage the AER to address the following:

- The development of a clear process for approving waivers where costs are likely to outweigh the benefits. This waiver process needs to be flexible, timely and adaptable.
- Where functional separation is recommended, adopting a transitional path where there is little imminent benefit to consumers of full functional separation. Ideally this would adopt some of the less intrusive components of ring fencing while allowing businesses to transition to functional ring-fencing over a number of years.
- Explore the potential for some areas of NSP businesses to be subjected to indefinite light-handed ring-fencing. This is particularly relevant in small markets where the NSP may be the only player prepared to invest and develop solutions that provide long term benefits to energy consumers in that market.

We welcome the opportunity to collaborate and engage with the AER as it develops the guideline, and we would like to meet with the AER to discuss the implications for our business and our customers. If you have any questions or require further information in relation to the matters raised above, please contact Kirstan Wilding on (03) 6271 6696 or at [kirstan.wilding@tasnetworks.com.au](mailto:kirstan.wilding@tasnetworks.com.au).

Yours sincerely

A handwritten signature in cursive script that reads "Bess Clark".

Bess Clark  
GM Strategy and Stakeholder Relations