

Ring-fencing guideline for electricity distribution network businesses

Working towards Ring-fencing guideline compliance

What is the new ring-fencing guideline?

The Australian Energy Regulator (AER) released its final ring-fencing guideline for electricity distribution network businesses on 30 November 2016.

Ring-fencing refers to the separation of regulated and competitive business activities where a regulated network business also offers services into a competitive electricity market.

The AER's guideline will replace the previous jurisdictional ring-fencing obligations on electricity distribution networks with a consistent, nation-wide approach to ring-fencing.

The ring-fencing guideline consists of three broad components:

- » **Avoiding cross-subsidisation** – preventing distribution networks from using regulated revenues to subsidise activities in competitive electricity markets;
- » **Non-discrimination** – ensure that distribution networks treat any related businesses and third parties on an equal basis; and
- » **Information sharing** – providing relevant information to all commercial parties on equal basis to support competitive market outcomes.

What are the objectives of ring-fencing?

Energy Networks Australia electricity distribution members support ring-fencing as an opportunity to provide greater reassurance to the market by fostering confidence for businesses operating in, or considering entering into, developing electricity markets.

A consistent national approach to ring-fencing will provide practical guidance to market participants seeking to make commercial and investment decisions related to the provision of services sought by consumers.

How will network businesses meet the new guideline?

Electricity distribution networks have undertaken a considerable amount of work in order to comply with the ring-fencing guideline by 1 January 2018.

As each network is different, the structural response varies from business to business. All compliance plans in relation to the ring-fencing guideline will be publicly available on distribution networks' websites in August 2017.

Why are some businesses seeking waivers?

Some distribution networks are seeking waivers from certain guideline requirements. The nature of these waiver applications vary with the individual circumstance of each network, but generally relate to situations where it can be demonstrated that:

- » there is the potential for harm or unnecessary costs to consumers if businesses are required to meet all of the guideline requirements; and
- » there is limited or no chance of the harm occurring that ring-fencing seeks to avoid.

Examples of situations where waivers may be sought by electricity distribution networks include:

- » where requirements relate to the provision of negotiated and unclassified services that only distribution networks can provide, e.g. emergency recovery works; or
- » where distribution networks operate within a common entity that also provides other regulated services, such as gas and water distribution, which do not cause any relevant concerns for competition in downstream electricity markets.

Waiver applications are submitted to the AER for consideration and consultation with stakeholders.

For more information contact

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