Mark Feather General Manager,
Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
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Submitted online: AERringfencing@aer.gov.au

16 December 2022

Dear Mr Feather,

Draft Ring-Fencing Guideline – Electricity Transmission

The Australian Energy Council (AEC) welcomes the opportunity to respond to the Australian Energy Regulator (AER) Draft Ring-Fencing Guideline – Electricity Transmission.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

The expansion of transmission infrastructure is inevitable and indeed desirable if we are to achieve energy reliability as grid scale fossil fuel generators close. Encouraging private capital to continue to invest rationally in grid scale renewables and storage means that the regulatory framework must support investor confidence in investing in long lived assets. This means that the decisions made in this review must provide an enduring and stable framework that will not likely see assets stranded by, or a chilling effect on investment in, assets that either support or are alternatives to transmission.

The AEC broadly supports the approaches taken in the draft guideline.

Removal of the 5% revenue cap.

The AEC supports the draft removal of the current 5% revenue cap, and management by exception through waiver. This is long overdue as regulation of Network Service Providers (NSPs) exists to provide regulated monopoly services, and not to provide economies of scope for NSP owners. There was never any obvious synergy or scale benefit accruing to consumers from NSPs via these economies of scope allowing for direct investment in retail and generation opportunities. In essence, the AEC supports the draft intent to completely remove NSPs from directly operating in contestable energy markets like generation and retail unless they obtain a waiver.

TNSPs should not be permitted to lease the spare capacity of battery storage they own which provides regulated services without a waiver.

The AEC supports the draft position that NSPs are not permitted to lease the spare capacity of battery storage they own which provides regulated services, any cross subsidised storage capacity. It almost impossible to allocate the direct and shared costs of a battery storage facility between the categories of electricity services they supply to prevent any cross subsidy. The guideline should support the development of competitive markets in services which are, or should be, contestable.

Accounting separation and cost allocation.

The AEC supports the draft strengthening the accounting separation and cost allocation provisions between transmission services and non-transmission services to ensure that there are competitive outcomes in the markets that TNSPs operate in.   .

The accounting and transactional separation obligations in the Guideline that require TNSPs to have separate accounts for their different service categories and allocate their shared and direct costs appropriately did not guarantee that cross subsidy would not occur; they simply required cost assignment.

Prescribed and negotiated transmission services from non-regulated transmission services.

The AEC supports the separation of prescribed and negotiated transmission services from non-regulated transmission services via a rule change to prevent any cross subsidisation by the NSP of connection assets.

Please contact the undersigned at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

David Markham
Australian Energy Council