

7 December 2015



Mr Warwick Anderson
General Manager – Network Financing and Reporting
Australian Energy Regulator

By email: AERinquiry@aer.gov.au

Your Ref: AC189/15

Dear Mr Anderson

Ergon Energy application for ring-fencing waiver

The Public Interest Advocacy Centre (PIAC) thanks the Australian Energy Regulator (AER) for the opportunity to provide comment on Ergon Energy's (Ergon) application for a waiver of the relevant ring-fencing requirements in relation to up to 20 grid utility storage system (GUSS) units that Ergon proposes to install on its network. PIAC works primarily on behalf of NSW residential energy consumers, but takes the view that the AER's consideration of the Ergon application has important implications for the regulation of such technologies across the National Energy Market.

PIAC considers that Ergon's proposal for ring-fencing requirements to be waived is not in the long-term interest of consumers. Accordingly, PIAC is opposed to the AER granting such a waiver. In PIAC's view, electricity network service providers should not be permitted to own storage assets, even through ring-fenced subsidiaries. Rather, PIAC would like to see networks required to procure access to storage capacity (or the peak load reduction and voltage regulation services it can provide) from third parties.¹ Given that Ergon expresses concern in its application about the administrative cost and complexity of maintaining the proposed GUSS units through a ring-fenced subsidiary,² that approach should also receive further consideration from the network..

PIAC submits that the existing requirements for ring fencing should not be waived for Ergon. Because energy networks are monopolies, consumers must rely on regulation to provide protection against the exercise of monopoly power and to deliver outcomes that are in consumers' long-term interests. Given that ring-fencing guidelines are in place across the NEM, PIAC submits that the existing regulatory framework should be applied, rather than waived.

This approach provides greater certainty to consumers who are making investment decisions related to their level of dependence on the network. Applying the relevant ring fencing requirements would also encourage third parties who may wish to develop energy service businesses as part of the innovative energy future that is currently evolving (and is a priority for

¹ The arguments and logic underlying this position are outline in *PIAC response to AEMC's energy storage discussion paper*, 5 November 2015, available at: www.piac.asn.au/publication/2015/12/aemc-energy-storage-discussion-paper-submission.

² Doyle, J, *Ergon Energy Corporation Limited Application for a Ring-Fencing Waiver Under Section 21 of the Electricity Distribution: Ring-Fencing Guidelines*, 28 October 2015, 7.

national policy makers). As previously stated, PIAC, therefore, takes the view that the enforcement of existing ring-fencing requirements is in the long-term interest of consumers, especially when compared to the alternative of the AER granting a ring-fencing waiver. Accordingly, PIAC recommends that the AER reject the Ergon application.

Recommendation

PIAC recommends that the AER reject Ergon Energy's application for a ring-fencing waiver.

Once again, PIAC thanks the AER for the opportunity to provide comment Ergon's application for a ring-fencing waiver. If you require any further information, please do not hesitate to contact Oliver.

Yours sincerely



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