Electricity Regulation in Australia

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I. Regulatory Authorities

A. Council of Australian Governments (COAG)

Initiates, develops and monitors the implementation of policy reforms of national significance and that require cooperative action by Australian governments, including energy and climate change.

B. Standing Council on Energy Resources (SCER)

Provides national oversight and coordination of energy policy development, and a national energy policy framework to guide future energy policy decision-making by jurisdiction, and to provide increased policy certainty to energy users and for the energy sector.

Members comprise the Commonwealth and state and territory government ministers responsible for energy and resources in their respective jurisdictions.

C. Australian Energy Market Commission (AEMC)

The AEMC makes and administers rules under which electricity distribution and transmission businesses operate the National Energy Rules (below). It is responsible for rule change proposals and conducting market reviews.

D. Australian Energy Market Operator (AEMO)

AEMO is an incorporated company which operates and administers the National Energy Market, and is responsible for overseeing the management and development of the NEM transmission system, including emergency preparedness and transmission demand forecasting.

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1 This research is generously funded by the Research Grants Council of Hong Kong under a Public Policy Research Grant numbered 7001-PPR-09.
**E. Australia Energy Regulator (AER)**

The AER is an independent constituent of the **Australian Competition and Consumer Commission (ACCC)**. It currently conducts surveillance of the wholesale electricity market and is responsible for the economic regulation of networks. It also monitors, investigates and enforces compliance with the NEL and NER, and, upon their commencement in July 2012, National Energy Retail Law and National Energy Retail Rules.
II. Market Structure

A. National Framework

1. Generation, transmission and distribution

With the exception of the Northern Territory and Western Australia, the generation, transmission and distribution sectors are subject to a common legal and regulatory framework, namely the National Electricity Market (NEM), which is regulated through the National Electricity Rules (NER).

The NEM is an interconnected power system that allows electricity to flow between Queensland, New South Wales, the Australian Capital Territory, Victoria, Tasmania and South Australia. The NEM framework has been adopted as legislation in each of the states.

Transmission and distribution networks in the NEM are a mix of both state and privately owned assets. They are subject to price or revenue regulation and access regimes.

2. Wholesale

The wholesale market is a spot market, operated and administered by the Australian Energy Market Operator (AEMO).

Price volatility and risk is hedged through separate bilateral capacity contracts to secure capacity and fix a price for the future capacity bought and sold.

3. Retail Sales

Retail sales will be brought within a unified framework under the National Energy Retail Law (NERL) and the National Energy Retail Rules (NERR), currently scheduled to commence on 1 July 2012.

Retail competition is keen in all jurisdictions.

In 2011, the Australian government introduced the Clean Energy Future plan which is
designed to move Australia to a clean energy future. The key elements of the plan are:

- Introducing a carbon price and requiring around 500 of the biggest polluters to purchase and surrender to the government a permit for every tonne of pollution produced
- Promoting innovation and investment in renewable energy and clean technology projects
- Encouraging energy efficiency

**B. Northern Territory**

The NT legislative framework comprises the Electricity Reform Act 2000 and the Electricity Network (Third Party Access) Act 2000. It aims to achieve long-term security and sustainability of energy supplies, and competitive pricing to encourage investment by industry in the region, including by diversifying energy sources.

A vertically integrated government-owned corporation, Power and Water Corporation, provides for most generation, network and retail operations. The generation and retail sectors are open, but subject to minimal direct competition.

**C. Western Australia**

The WA legislative framework comprises mainly the Electricity Industry Act 2004. It deals with licensing, customer, contract terms, network access, supplier of last resort arrangements, tariff equalization and the operation of the wholesale market. It is supported by codes and guidelines on network access, metering, network quality and reliability of supply and rules governing the operation of the wholesale electricity market.

Future energy policy is set out in the Strategic Energy Initiative, Energy 2031. The goals of Energy 2031 include securing sufficient investment in energy supply resources and infrastructure to meet future needs; ensuring a transparent, stable, market-based regulatory environment; delivering competitive energy prices for consumers and an attractive environment for energy investors; and focusing on energy production and consumption that minimizes carbon emissions.

Four government-owned corporations service the bulk of the electricity market. However there are some privately owned generation and network facilities, and limited room for new-entrant retailers.
III. Regulatory Regime

A. Power Generation

Authorization to construct and operate

Ownership, control or operation of a generating system connected to a transmission or distribution system must be registered by AEMO as a generator. Additionally, many jurisdictions have a licensing process, administered by the relevant jurisdictional regulator.

A number of prerequisites apply, most importantly stipulated performance standards (see below for performance standards of the transmission grid which must be met by a generator).

Exemption from generation applies to generators with a capacity of less than 5MW. Beneficiaries from exemption include small generation facilities such as emergency back-up generation and small solar systems.

Environmental Requirements

Some jurisdictions impose additional environmental and planning requirements on generators. Generators may be required to obtain environmental approval or prepare an environmental impact study from the relevant jurisdictional body. Approvals are required in New South Wales, the Australian Capital Territory and Queensland.
**B. Clean Energy Future Plan**

The Clean Energy future Plan comprises a large package of programmes geared towards encouraging power generation based on alternative energy sources\(^2\).

Key features of the Clean Energy Future Plan include the following:

| Reducing pollution | Australia is committed to a 5% reduction from 2000 levels by 2020 regardless of global progress. By 2050 Australia aims to reduce pollution by 80%.  
Australia adopts a **carbon price mechanism/ emissions trading regime** to reduce pollution. **From 1 July 2012 a fixed carbon price will be applied at $23 per tonne; and from 1 July 2012, Australia will migrate fully to an emissions trading scheme where carbon price will be set by the market.**  
Households, small businesses, agricultural activity and light on-road vehicles are exempted from the 3-year carbon price mechanism, which is envisaged to apply to about 500 of the biggest polluters in Australia. |
|---|---|
| Innovation in renewable energy | A new **$10 billion** Clean Energy Finance Corporation will **invest** in renewable energy, low-pollution and energy efficiency technologies.  
A further **$3.2 billion** will be administered by a new Australian Renewable Energy in **support for research and development**, demonstration and commercialization of renewable energy.  
An additional **$200 million** will support **business investment in R&D** of clean technologies over the next five years. |
| Improving energy | Energy efficiency is promoted through a combination of |

Efficiency measures affecting businesses, households and vehicles:

- Creation of Low Carbon Communities through competitive grants to local councils and communities to improve energy efficiency in council and community-use buildings and facilities
- Mandatory emissions standards for light vehicles, greater use of Green Vehicle Guides and Fuel Consumption Labels
- Tax breaks for Green Buildings
- Encouraging the use of smarter household appliances and improving access to information on energy saving actions through a household advice line and website
- Use of smart meters nationwide to allow households to measure and keep track of hourly electricity usage
- Energy efficiency grants for businesses; grants for energy efficient equipment

Supporting Energy Markets

To ensure a smooth transition from heavily polluting energy production to clean energy production, the government intends to take the following measures:

1. Payment for closure – the government will seek to negotiate the closure of Australia’s most emissions-intensive generation capacity
2. Assistance for strongly-affected generators – Free allocation of carbon permits and cash over 5 years and loans to help refinance existing debt and purchase carbon permits
3. Establishment of an Energy Security Council to advise the government on emerging risks to energy security and possible support measures.
4. Planning a clean energy grid by asking AEMO to expand the transmission grid to support a clean energy future.

Supporting jobs and competitiveness

The $9.2 billion Jobs and Competitiveness Programme aims at assisting the most emissions-intensive activities in the economy that are highly exposed to international competition. The Programme recognizes that pollution-intensive industries, for example the metal industry, are at risk of losing their international competitiveness due to the new carbon price.
In order to shield these industries from the carbon price, **carbon permits will be allocated to them free of charge based on historic emissions levels.** This provides an incentive for these industries to reduce pollution. Free permits are guaranteed for the first five years.

A **$1.2 billion Clean Technology Programme** will support research and development in low-pollution technologies and help directly improve energy efficiency in manufacturing industries. The government will identify and implement technologies that will improve efficiency.

Research and development grants operate on a dollar-for-dollar, co-contribution basis. Businesses will receive an equal contribution from the government for their investment in clean energy innovation.

Assistance will also be provided to small business owners to enable improvements in energy efficiency and reduce energy costs.

**Feed in Tariff schemes** New South Wales, South Australia, Victoria and the Australian Capital Territory have adopted feed-in tariff schemes to encourage renewable generation.

Feed in Tariff schemes provide customers who have installed renewable energy generators (i.e. a solar photovoltaic generator or wind turbine) with a credit against their electricity charges for electricity that is produced by the renewable energy generator and supplied to the distribution network. This allows them to earn savings or even profit from installing a small scale renewable energy generator.
## C. Transmission

### Authorization to Construct and Operate

Ownership, control and operation of a transmission system are subject to **registration or licensing** by the AEMO as a network Service Provider.

Some jurisdictions impose additional environmental and planning requirements on transmission networks. Network service providers may therefore be required to obtain environmental approval from the relevant minister or jurisdictional body. For example, approvals are required in New South Wales and Queensland.

### Access to Transmission Services

Access to transmission networks is provided subject to regulations and requirements which apply in each jurisdiction. In general, the transmission network service provider may require its **performance and system standards** to be met before access is granted\(^3\). Such standards exist to safeguard system security and the overall quality of supply to other network users.

Subject to the standard requirements, transmission network service providers must grant access to the requesting generator\(^4\). If it is unable to service the request (due to its type, magnitude or timing), it is obliged to liaise with other network service providers to jointly satisfy the request.

### Grid Expansion

Grid expansion within the NEM is subject to efficiency and necessity. The AER will only approve future capital expenditure on network expansion where expansion is an efficient method to maintain the quality and reliability of services.

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3 NER Chapter 5.2.5  
4 NER Chapter 6A
The “Regulatory Investment Test for Transmission” (RITT)\(^5\) is applied to adjudge whether network expansion is required. The RITT identifies the transmission investment option which maximizes net economic benefits and meets reliability standards. It also acts as a single framework for all transmission investments.

The costs of expansion will be weighed against benefits such as changes in fuel consumption through different patterns of generation dispatch (i.e. expansion to renewable power friendly locales), changes in voluntary load curtailment or involuntary load shedding, competition benefits (i.e. to accommodate more generators and encourage market entry) etc.

The RITT process is designed to reap the following benefits:

- Ensuring efficient investment over time by combining reliability and market benefit requirements
- Improving consistency and transparency across transmission investment assessment and promote efficient decision making
- Requiring a project specification consultation report to promote more efficient outcomes over time
- Exemptions in certain cases reduce the regulatory burden faced by network providers.

**Rates and Terms**

The pricing for **prescribed transmission services** is regulated by a revenue cap. Prescribed transmission services refer to shared services where the user cannot negotiate the terms and conditions.

The pricing for **negotiated transmission services** is subject to a

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\(^5\) AER, Explanatory Statement: Draft regulatory investment test for transmission and regulatory investment for transmission application guidelines [http://www.aer.gov.au/content/index.phtml/itemId/748266](http://www.aer.gov.au/content/index.phtml/itemId/748266); Final decision: Regulatory investment test for transmission and regulatory investment test for transmission application guidelines [http://www.aer.gov.au/content/item.phtml?itemId=737901&nodeId=c1f2f2c0753adf42e858eaa93c447d3c&fn=RIT-T%20Final%20decision%20(June%202010).pdf](http://www.aer.gov.au/content/item.phtml?itemId=737901&nodeId=c1f2f2c0753adf42e858eaa93c447d3c&fn=RIT-T%20Final%20decision%20(June%202010).pdf)
fair and reasonable requirement, and the price for services must be based on the costs incurred in providing those services.
**D. Wholesale**

**Spot market price** Wholesale trading in the NEM is conducted through a spot market, operated and administered by the AEMO.

The price of electricity in the spot market is calculated based on the spot price. The spot price is calculated by the AEMO, and set at a maximum of $12,500 per MWh.

To calculate the spot price, generators place a bid every 5 minutes offering to supply the market with specific amounts of electricity at particular prices.

The AEMO determines the lowest-priced generators required to produce the amount of electricity need to satisfy demand and directs these generators into production.

Then the AEMO calculates the dispatch price for each 5 minute interval, and takes the average of 6 dispatch prices to calculate a half-hourly spot price.

**Capacity Mechanism** To manage spot price volatility and risk, generators and customers negotiate bilateral financial contracts independently to secure capacity. The capacity is bought/sold at an agreed fixed price for electricity to be consumed in the future.
### E. Distribution

<table>
<thead>
<tr>
<th>Authorization to construct and operate</th>
<th>See transmission.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
<td>Access to distribution services is typically sought by a generator, a transmission network service provider, another distributor, or a retailer. Access may also be sought by small generators embedded within the distribution network area.</td>
</tr>
<tr>
<td>Rates and terms⁶</td>
<td>In NEM, distributors are regulated monopolies, subject to both revenue and price regulation on a cost-recovery principle. Distribution agreements are divided into two types. The first is direct control services, which are “off the shelf” offers to connect customers. The second is negotiated connection agreements, which relate to customers who do not fit within a standard or basic connection offer.</td>
</tr>
</tbody>
</table>

#### 1. Direct Control Services

Pursuant to Chapter 6 of the NER, the AER makes a distribution determination for direct control services offered by a distributor that typically applies for 5 years.

A distribution determination imposes controls over:
- the prices of direct control services, and/or
- the revenue to be derived from direct control services.

Each year, the distributor submits an annual pricing proposal to

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⁶ AER, Explanatory Statement: Connection charge guidelines under Chapter 5A of the NER for retail customers accessing the electricity distribution network, 22 December 2011

the AER for approval. The proposal sets out the tariffs proposed by the distributor. The AER must approve the proposal if it complies with the revenue cap and pricing criteria.

2. **Negotiated Connection Agreements**

Agreements negotiated by an access seeker must comply with a negotiating framework approved by the AER and must be proportionate to the incremental cost of providing the service or the capital cost of servicing the access seeker.
**F. Retail Sales**

**Approval to sell power**

At present, retailers must be registered by the AEMO. However, starting from July 2012, authorization will be unified under a single, NEM-wide authorization given by the AER.

Bodies corporate or owners’ corporations who buy electricity from an authorized retailer to resell to tenants or occupiers are exempt from retailer authorization.

**Rates**

Refer to reform below.

**Public Service Obligations**

In the NEM, each jurisdiction appoints one retailer for each connection point who must offer to supply electricity to a consumer as the retailer of last resort.

This is designed to ensure that in the event of retailer failure, arrangements are in place so that customers continue to receive electricity supply.

Upon the commencement of the NERL in July 2012, jurisdictional public service obligations will be migrated to the National Retailer of Last Resort (RoLR) Scheme as default RoLRs. In jurisdictions which do not currently have public service obligations, the AER will appoint and register RoLRs for that jurisdiction.
IV. Retail Regulation Reform

A. Retail Price Comparison

Market Offers vs Standing Offers

Standing offers are offers for the sale and supply of energy under a standard retail contract. They protect small customers who have not exercised their right to choose a retailer. Standing offer contracts offer model terms and conditions set out in the National Energy Retail Rules (NERR).

Market offers refer to contracts with negotiated terms and conditions with a retailer of choice. Although the terms and conditions vary, they must comply with the requirements of the NERR.

Price Comparator Website

The AER is required under the NERR to develop a price comparator website to enable small customers to compare standing offer prices and market offer prices. In order to assist the AER, retailers are obligated by the NERR to submit to the AER information and data relating to the purposes of the price comparator in the form and manner required by the AER.

Energy Price Fact sheet

The website operates by generating a pro forma Energy Price Fact Sheet for each market contract offer made by retailers. The Energy Price Fact Sheet will contain (1) the unit price for electricity, and (2) any fixed or standing charge applicable in “cents per day”. Sufficient detail must be provided for the consumer to calculate the applicable rate. This means that if rates vary throughout the day, different rates must also be provided.

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7 AER Retail Pricing Information Guideline January 2012  
http://www.aer.gov.au/content/item.phtml?itemId=752212&nodeId=8078b4456301166753ab27ea08ae8f54&fn=Final%20amended%20AER%20Retail%20Pricing%20Information%20Guideline%20-%20January%202012.pdf

8 http://www.aer.gov.au/content/index.phtml/itemId/748266
### Example:

**Example 1**

<table>
<thead>
<tr>
<th>Applicable charges</th>
<th>Price (Excl GST)</th>
<th>Price (Incl GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>cents per kWh</td>
<td>cents per kWh</td>
</tr>
<tr>
<td>Daily supply charge</td>
<td>cents per day</td>
<td>cents per day</td>
</tr>
</tbody>
</table>

**Example 2**

<table>
<thead>
<tr>
<th>Applicable charges</th>
<th>Price (Excl GST)</th>
<th>Price (Incl GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak consumption (Mon-Fri 7am to 11pm)</td>
<td>cents per kWh</td>
<td>cents per kWh</td>
</tr>
<tr>
<td>Off-peak consumption (all other times)</td>
<td>cents per kWh</td>
<td>cents per kWh</td>
</tr>
<tr>
<td>Daily supply charge</td>
<td>cents per day</td>
<td>cents per day</td>
</tr>
</tbody>
</table>

### Example of other fees and information:

<table>
<thead>
<tr>
<th>Fees</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dishonoured payment fee (direct debit)</td>
<td>$X, applicable if payment is not received via direct debit before the due date.</td>
</tr>
<tr>
<td>Dishonoured payment fee (cheque)</td>
<td>$Y, applicable if payment is not honoured by your bank.</td>
</tr>
<tr>
<td>Payment processing fee for credit card payment</td>
<td>Z% of total bill amount, applicable to customers who make payment using credit card.</td>
</tr>
<tr>
<td>Additional fees</td>
<td>For information on additional fees, please see the full contract terms and conditions available on our website or contact us on [insert number].</td>
</tr>
</tbody>
</table>

### Options

- **Go Green – EnergyRetailer’s X% Green Option**
  
  EnergyRetailer offers you the ability to offset up to X% of your electricity with green energy. For example, you can elect to pay Y% extra for Z% green power. For more details regarding pricing and green power, please see our website or contact us on [insert number].

### Available discounts

- **Early payment bonus**
  
  Z% discount off total bill amount where that amount is paid in full 7 or more business days before the due date

- **Direct debit discount**
  
  X% discount off total bill amount where payment is made by monthly automated direct debit

### Other details

- **Contract length**
  
  V months. Upon the completion of your contract term, your contract will be automatically renewed on a month to month basis.
B. Publication of Energy Price Fact Sheets

Apart from being published on the AER website, the Energy Price Fact Sheet must also be published on a retailer’s website, with a clear and obvious link.

Providing Energy Price Fact Sheet(s) upon subscription

When customers sign up for a contract via an online process, a retailer must refer to and provide a clear link to the Energy Price Fact Sheet(s).

Similarly, a hard copy of an Energy Price Fact Sheet must be provided to a customer who signs up during door-to-door sales or in person marketing activity.

In general, when conducting telemarketing and telephone queries, a retailer must advise each customer that Energy Price Fact Sheets are available on the retailer’s website. Upon the customer’s request, the Energy Price Sheet must be sent to the customer within 5 business days, via post or email.

C. Energy Consumption Benchmarking

Energy retailers will be required to publish information on the electricity bills of residential consumers to enable them to compare their household electricity usage with that of households of a similar size in their local zone.

Benchmarking of electricity usage is conducted by the Consumer Information and Implementation Committee (CIIC).9

D. Customer Hardship Policies10

9 ACIL Tasman Electricity Bill benchmarks for residential customers (December 2011)
   http://www.aer.gov.au/content/item.phtml?itemId=751593&nodeId=8de0dc68ec16e8cha58286ef13e4096f&fn=ACIL%20Tasman%20Electricity%20bill%20benchmarks%20for%20residential%20customers%20(December%202011).pdf
10 AER, Final Guidance on AER approval of customer hardship policies
   http://www.aer.gov.au/content/item.phtml?itemId=748161&nodeId=0e698c797e5f7c9050239a9ed879757f&fn=Guidance%20on%20AER%20approval%20of%20customer%20hardship%20policies%20(May%202011).pdf
Retailers are required to maintain a customer hardship policy, which must be approved by the AER. The purpose of a hardship policy is to identify customers experiencing payment difficulties due to hardship and to assist those customers to better manage their electricity bills on an ongoing basis.

Once approved, customer hardship policies must be published on retailers’ websites. The Policy should be short, accessible and easy to understand, outlining how to access the programme and the assistance available.

The minimum standard of a customer hardship policy is as follows:

- Processes for identification of customers experiencing payment difficulties due to hardship
- Processes for early response by retailer
- Flexible payment options
- Processes to identify appropriate government concession programmes
- Outline of a range of programmes the retailer may use to assist hardship customers
- Processes to assist customers with strategies to improve energy efficiency
III. Competition

A. Competition and Consumer Act 2010

The Australian Competition and Consumer Commission (ACCC) is responsible for administering and enforcing the mergers and acquisition provisions of the Competition and Consumer Act 2010 (CCA 2010). The provisions of the CCA 2010 apply to all transactions including those relating to electricity businesses and assets.

Additional to the general prohibitions under the CCA 2010, the AER has authority to investigate possible breaches of the NEL, the NER or the National Electricity Regulations.

Under the ACCC:

1. Conduct violations such as price fixing, supply restrictions, market sharing, bid rigging, minimum resale maintenance are per se offences and attract liability regardless of the impact on competition in a market. Criminal liability also attaches to cartel provisions.
2. Abuse of market power such as predatory pricing, exclusion of competitor or deterrence of competitive conduct by competitors is illegal if undertaken for an illegal purpose.
3. Anti-competitive agreements such as exclusive dealing and M&As are subject to a “substantial lessening of competition” test, informed by merger factors listed under s.50 of the CCA 2010.

B. Ring-Fencing

In the NEM (under the NER\(^\text{11}\)), the AER may develop and enforce ring-fencing guidelines for vertically integrated distribution service network service providers (DNSPs) and transmission network service providers (TNSPs) that involve a natural distribution monopoly as well as competitive activities. Such guidelines carry the force of law, as utilities are required to comply with AER guidelines under the NER.

Ring-Fencing is the identification and separation of the business activities, costs, revenues and decision making of an integrated entity that are associated with a monopoly element,

\(^\text{11}\) Distribution: NER Clause 6.16.2, NEC Clause 6.20.2(b); Transmission: NER Clause 6.20.1
from those that are associated with providing services in a competitive market. **Ring-fencing helps limit the ability of vertically integrated DNSPs and TNSPs to use their market power to favour related businesses to the detriment of an efficient market**, i.e. by discriminating as to the terms of access for upstream and downstream competitors. It thereby promotes effective competition, efficiency and customer welfare.

**Ring-fencing obligations that apply to vertically integrated DNSPs and TNSPs**

12 typically require:

- The separation of the accounting and functional aspects of regulated distribution services from other contestable services provided by a DNSP.
- Legal separation of distribution/transmission and other competitive activities. TNSPs and DNSPs are prohibited from carrying on related businesses through a partnership, joint venture or other unincorporated association.
- If necessary, separation of directorship and staff.
- Clear allocation of shared costs between different operations.
- Limits on the flow of information, ensuring that any information provided to an associate or related business is also available to any other party.
- Offer of services to customers to be on terms and conditions no less favourable to that provided to itself and associates.
- Waiver of obligations under the guidelines subject to a *de minimis* requirement of 5% of total revenue.

Ring-fencing plugs the loopholes of the CCA 2010. Section 50 of the CCA, which prohibits the acquisition of shares which would likely have the effect of substantially lessening competition in a market, will generally address competition issues arising from a particular acquisition effectively. It is however not specifically designed to achieve the effective separation of generation or retail and distribution activities in the NEM13. The AER considers that DNSPs and TNSPs could have the incentive to behave in a manner that negatively impacts on the achievement of the National Electricity Objective of fair competition, but does not breach the CCA 2010. Therefore the continued operation of ring-fencing guidelines is necessary to prevent the anti-competitive effects that can arise where there is a co-ownership of a DNSP or TNSP and a competitive business.

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13 See AER discussion paper (below) at 3.2.3
Ring-Fencing Guidelines for DNSPs have up to now been developed independently in each jurisdiction. However the AER is currently undergoing a review of current arrangements and seeks to promulgate a single set of national ring-fencing guidelines that apply to DNSPs in all jurisdictions\(^\text{14}\). This will eliminate jurisdictional discrepancies and ensure that the guidelines are periodically reviewed by the AER.