



Addendum to Ergon Energy Ring Fencing Waiver

**Behind-the-meter generation services
in the isolated networks
22 December 2023**



Part of Energy Queensland

Addendum to Ergon Energy's Ring-fencing waiver application

Introduction

This addendum contains additional information to support the Australian Energy Regulator's (AER's) consideration of Ergon Energy Corporation Limited's (Ergon Energy's) application for a waiver from ring-fencing obligations related to the proposed provision of behind-the-meter generation services in its Isolated Networks, as submitted on 25 October 2023.

Locational coverage of the waiver

The waiver application covers all the Isolated Networks owned and operated by Ergon Energy as per Figure 1 of the waiver application and as listed in Table 1 below. All these remote sites experience some level of isolation from solar PV system service providers, even the larger remote communities such as Thursday Island, where the costs of such contractors are very high and the contractors' availability is limited.

Aurukun	Erub, Darnley Island	Napranum
Badu Island	Iama, Yam Island	Ngurupai, Wasaga, Hom Island
Bamaga	Jundah	Palm Island
Bedourie	Kiriri, Hammond Island	Pompuraaw
Birdsville	Kowanyama	Poruma, Coconut Island
Boigu Island	Kubin, St Pauls, Moa Island	Saibai Island
Boulia	Lockhart River	Ugar, Stephen Island
Burketown	Mabuiag Island	Waiben, Thursday Island
Camooweal	Mappoon	Warraber Island
Coen	Masig, Yorke Island	Windorah
Dauan Island	Mer, Murray Island	
Doomadgee	Mornington Island	

Table 1 – Ergon Energy's Isolated Networks

Estimated total embedded generation capacity likely to be installed under the waiver

The Isolated Networks currently have a diesel generator asset base capacity of approximately 47MW across 33 power stations. Ergon Energy currently operates about 1MW of centralised renewable generation in the Isolated Networks, with customer owned and operated rooftop solar PV systems at approximately 4.6MW.

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Ergon Energy's *Isolated Networks Strategy 2030* includes growing the centralised renewable generation fleet to achieve targets,¹ in alignment with the Queensland Government's Queensland Energy and Jobs target of 70% renewable energy by 2032.²

As part of this waiver application, Ergon Energy would like to further support decentralised renewable generation through owning, operating and maintaining rooftop solar PV systems behind customers' meters, for the reasons outlined in the waiver application.

Pending the agreement of the Queensland Government and assessment of the suitability of roofing infrastructure, Ergon Energy foresees that the most likely candidates for a program of this nature will be community, social or council housing. It is important to note that these customers are typically unable to purchase their own solar PV systems.

Ergon Energy envisages the program could involve up to 1000 rooftops across the 39 communities, which—at about 10kW per rooftop mounted solar PV system—indicates as much as 10MW of additional renewable generation securely integrated into the isolated networks.

Market testing on installation and maintenance of behind-the-meter generation

In terms of the market for installation of behind-the-meter generation in the Isolated Networks, over half of solar PV systems in these locations have been funded through some form of government support, such as grants or departmental budgets. For example, the Diamantina Shire Council's Diamantina Solar Power Project commencing in late 2020 was funded through Round 5 of the Queensland Government's Building our Regions initiative, with funding approval of \$944,860 to support a total project cost of \$1,073,764.³ This project, along with many others, would not have proceeded in the Isolated Networks without government funding support.

There are two examples in the Isolated Networks that illustrate the nature of the market for maintenance of behind-the-meter generation in remote locations.

The Diamantina Shire Council project noted above involved the installation of 80 solar PV systems in Bedourie and Birdsville by a Toowoomba-based company. However, the same company was not engaged to provide ongoing maintenance, given the high costs mainly associated with the 36-hour return trip due to the remoteness of those locations. As a result, a significant number of those solar PV systems are now offline, typically due to inverter faults.

A recent review of Palm Island solar PV systems completed by the Palm Island Aboriginal Council found that over 60% of systems were offline or underproducing due to lack of maintenance, damage or system failures. These systems had not been maintained or repaired due to a lack of the relevant skills within the Council and the high costs of engaging contractors to complete the remediation works.

¹ [Isolated Networks 2030 Strategy \(ergon.com.au\)](https://www.ergon.com.au)

² [Queensland Energy and Jobs Plan \(epw.qld.gov.au\)](https://www.epw.qld.gov.au)

³ [Funded projects | State Development, Infrastructure, Local Government and Planning](#)

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Funding of the behind-the-meter assets

It is important to note that in addition to the other (generation) services Ergon Energy provides in the Isolated Networks under the existing ring-fencing waiver, distribution services in these locations are not standard control services / alternative control services regulated by the AER.

A change in the specific costs of supply in an Isolated Network (for example due to the installation of new assets owned and operated by Ergon Energy) does not flow through to retail customers in the Isolated Networks, who pay regulated retail electricity prices set by the independent Queensland Competition Authority under the Queensland Government's Uniform Tariff Policy (UTP). The UTP provides that, wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via common prices structures, regardless of their geographic location.⁴ As a result, Isolated Network retail customers served by the retailer Ergon Energy Queensland pay the same regulated retail prices as their peers across the rest of regional Queensland.

Therefore, pending the agreement of the Queensland Government, Ergon Energy envisages the costs of the program would be covered through the Queensland Government's Community Service Obligation (CSO), which supports the UTP, rather than an additional payment by customers. The Queensland State Budget refers to the increase in the Isolated Systems CSO from \$65.2 million in 2022-23 to an estimated \$90.4 million in 2023-24 as largely driven by changes in diesel fuel costs.⁵ Renewable energy generation, in particular distributed rooftop PV systems, would put downward pressure on diesel use and subsequently total CSO costs, and at a comparatively lower cost than alternatives when deployed at scale and maintained by Ergon Energy.

⁴ [Electricity Ministerial Delegation No.1 2023 to the QCA](#), page 3

⁵ [Budget 2023-24 Strategy Outlook.pdf](#), Table A.2.4