

Contact Officer: Danielle Chifley
Contact Phone: [REDACTED]

22 August 2024

Ms Trudy Fraser
A/Executive General Manager Regulation
Energy Queensland

Sent by email to: [REDACTED]

Dear Ms Fraser

Re: Ergon Energy ring-fencing waiver application for behind-the-meter generation services in the isolated networks

Thank you for the application received from Ergon Energy on 25 October 2023 for a waiver from the obligations in clauses 3.1(b), 4.2.1(a), 4.2.2(a) and 4.2.3(a) of the Ring-fencing Guideline for Electricity Distribution (the Guideline).

Ergon Energy's proposal

Ergon Energy is seeking a waiver to enable it to provide generation services to customers in the isolated networks in Queensland by utilising a range of renewable, behind-the-meter (BtM) assets in place of the current diesel-fuelled generation currently in use. This is to enable Ergon Energy to deliver key elements of Queensland Government policy, including the decarbonisation of electricity supply in the isolated networks.

The proposed waiver would operate alongside an existing waiver, granted on 17 December 2017, for Ergon Energy to provide generation, distribution and retail services to customers in these isolated networks. The existing waiver was granted taking into account the past use of diesel-fuelled generation by Ergon to supply electricity to these customers. That waiver will expire on 30 June 2025.

AER assessment and decision

Under Guideline clause 5.3.2, before granting a waiver the AER must have regard to the National Electricity Objective (NEO), the potential for a distribution network to engage in cross-subsidisation of services and whether the costs of compliance with the Guideline outweigh the benefit to consumers of that compliance, including in relation to impacts on competition.

We consider that the proposed waiver is likely to contribute to the NEO since it will result in a reduction of greenhouse gas emissions associated with supply to these communities. Further, using renewable BtM assets for generation in these locations has the potential to be a more efficient solution than relying solely on centralised renewable generation.

Under the proposed waiver, Ergon Energy would install and operate generation assets in the isolated networks such as solar panels and storage, including on customers' premises. Several stakeholders raised concerns that the proposed waiver carries a risk of Ergon Energy crowding out other potential providers of decentralised renewable generation in the isolated communities. One submission noted that this risk may vary depending on the location of each isolated network.

In assessing these concerns and likely impacts on competition to provide renewable BtM assets, we took note of the statement by Ergon Energy that it is not seeking the proposed waiver in order to be the exclusive provider in the isolated networks. We also considered the expected impact on other potential providers of the higher cost of providing BtM generation in isolated networks. Finally, we took account of Queensland Government policy with respect to electricity supply to the communities served by these networks and the community service obligation. We further noted that Ergon Energy will have the opportunity, depending on the delivery model chosen for each location, to engage other parties to participate in the roll-out of BtM assets in the isolated networks.

Finally, we noted that Ergon Energy's application has explained that there will be no cross-subsidy from customers of its regulated services outside the isolated networks. This is because the planned BtM assets will be funded by the Queensland Government in the same way as the existing diesel generation.

Following its consideration of Ergon Energy's application, the AER has decided to grant a waiver to Ergon Energy from clauses 3.1(b), 4.2.1(a), 4.2.2(a) and 4.2.3(a) of the Guideline to enable Ergon Energy to provide generation services in isolated networks using 'behind the meter' (BtM) renewable assets. This waiver is granted on the conditions that Ergon Energy:

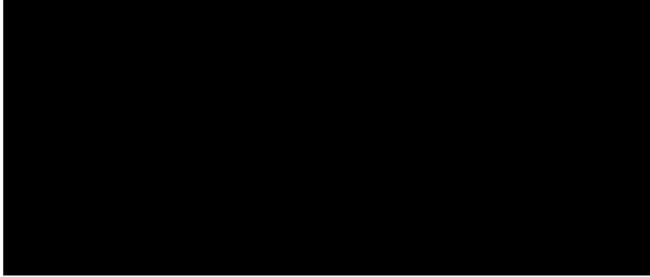
- i. For the duration of this waiver, publish, maintain, and update (where necessary in order to keep the report current), a publicly-available report on the Ergon Energy website detailing the available capacity in each isolated network for hosting solar PV installations, including the available hosting capacity (expressed in kVA) and the available dynamic solar capacity (expressed in kVA).
- ii. Provide the AER with a report, in July 2026 and again in July 2028, detailing the steps undertaken by Ergon Energy (including, for the July 2026 report, steps taken before the grant of this waiver) to investigate whether other unaffiliated third parties have the capacity to supply, install, operate or maintain BtM assets in the communities served by the isolated networks. Such steps could include, but are not limited to, formal calls for expressions of interest or tenders, direct engagement with community groups in the communities served by the isolated networks and/or with local government bodies, and other market testing activities.

This waiver is limited to the isolated networks specified in the addendum provided by Ergon Energy and listed in **Attachment A** to this letter. The waiver will expire on 30 June 2030, unless varied or revoked sooner.

We consider it important that Ergon Energy's application has highlighted its intention to take a co-design approach with First Nations people to determine how it will roll-out BtM assets in each isolated community, backed up by the consultation commitments in Ergon Energy's current Isolated Networks Strategy 2030. We expect Ergon Energy to make all reasonable efforts to engage with and consult the First Nations people served by the isolated networks as it plans and progresses the roll-out.

If you would like to discuss this matter further, or have any questions, please contact Danielle Chifley, Acting General Manager, Policy Branch, on [REDACTED] or [REDACTED] in the first instance.

Yours sincerely



Jarrold Ball
Board Member, AER

Sent by email on: 22.08.2024

Attachment A

Aurukun	Dauan	Palm
Badu	Doomadgee	Pormpuraaw
Bamaga	Gununa, Mornington Is.	Saibai
Bedourie	Hammond	Stephens
Birdsville	Jundah	Thursday
Boigu	Kowanyama	Warraber
Boulia	Kubin, Mua Is.	Wasaga, Horn Is.
Burketown	Lockhart	Windorah
Camooweal	Mabuiag	Yam
Coconut	Mappoon	Yorke
Coen	Murray	
Darnley	Napranum	