



Ergon Energy Network Ring-fencing Waiver Application

**Provision of metering services in three
communities in regional Queensland**

3 May 2024



Part of Energy Queensland

CONTENTS

1.	Introduction	1
2.	Description of waiver being sought.....	2
	2.1 Obligation subject of the waiver	2
	2.2 Reasons for seeking a waiver	2
	2.3 Details of services for which waiver is being sought	3
	2.4 Proposed waiver commencement date and expiry date	4
	2.5 Potential costs if waiver application is not granted	4
	2.6 Regulatory control periods to which the waiver would apply	4
	2.7 Reasons why Ergon Energy Network considers the waiver should be granted	5
3.	Conclusion	6

Ergon Energy Network's Ring-fencing Waiver Application

1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy Network) is a subsidiary of the Energy Queensland Group and is a Queensland Government Owned Corporation. Ergon Energy Network builds, operates, and maintains an electricity distribution network and supplies electricity to more than 760,000 customers over a vast operating area covering one million square kilometres – around 97 per cent of the state of Queensland. Ergon Energy Network's supply area covers the expanding coastal and rural population centres to the remote communities of outback Queensland and the Torres Strait. There are over 160,000 kilometres of power lines and approximately one million power poles in the Ergon Energy Network distribution network, along with associated infrastructure such as major substations and power transformers.

The National Electricity Rules (NER) require Ergon Energy Network to comply with the Australian Energy Regulator's (AER) Ring-fencing Guideline Electricity Distribution (the Guideline).¹ Ergon Energy Network is committed to compliance with the Guideline but is supportive of the granting of waivers by the AER, where appropriate, with a view to better achieve the National Electricity Objective (NEO) and net benefits for the long-term interests of consumers.

There are 32 communities across regional Queensland that utilise card-operated meters (COMs). Of these, 29 are connected to isolated power systems. These 29 communities are not subject to the requirements of the NER and are instead regulated under the Queensland Competition Authority's Electricity Distribution Network Code.² The remaining three communities, Hopevale, Jumbun and Wujal Wujal (the three communities), are connected to the national grid and therefore fall within the national energy regulatory framework, including the metering provisions of the NER.

The current Retailer in the three communities is Ergon Energy Retail and the Metering Coordinator (MC) for new and replacement meters is Metering Dynamics Pty Ltd (Yurika Metering). Ergon Energy Retail is seeking to appoint Ergon Energy Network as the MC in the three communities. For Ergon Energy Network to undertake metering services as an appointed MC in the three communities, a ring-fencing waiver is required.

The proposed change in MC is not expected to have any consequential effect on customers. Ergon Energy Network is committed to upholding community expectations and mitigating the risk of financial hardship and debt escalation. Ergon Energy Network has long standing relationships in the three communities – including being a direct party in the original agreement to install COMs.

Attached to this application are letters of support from both Yurika Metering (**Attachment A**) and Ergon Energy Retail (**Attachment B**).

¹ Version 3, which was published in November 2021.

² Available [here](#).

Ergon Energy Network's Ring-fencing Waiver Application

Under clause 5.3.3 of the Guideline, the AER may, in its absolute discretion, grant an interim waiver. Ergon Energy Network would appreciate the AER exercising this option to enable its timely appointment as MC in the three communities. This would support the continued use of COMs in these communities and avoid any potential delays or costs in replacement or installation.

In parallel with this waiver application, and contingent on the waiver being approved, Ergon Energy Network is also seeking a letter of comfort from the AER that no disciplinary action will be taken for non-compliance with clause 7.8.3(a) of the NER in relation to any installation or replacement of meters with Type 6 COMs in the three communities.³ The letter sets out detailed background information in relation to the existing arrangements in the three communities. Ergon Energy Network encourages the AER ring-fencing team to read the letter and this application conjointly.

2. DESCRIPTION OF WAIVERS BEING SOUGHT

2.1 Obligation subject of the waiver

Ergon Energy Network is seeking a waiver of the legal separation obligation under clause 3.1(b)⁴ and branding and cross-promotion obligations under clause 4.2.3⁵ of the Guideline, in order to provide other services, being metering services⁶ in the three communities.

This request is consistent with the acknowledgement from the AER that a waiver for functional separation is often appropriate when a waiver for legal separation has been granted.⁷

2.2 Reasons for seeking a waiver

There are approximately 433 residential customers utilising COMs across the three communities. The use of COMs stems from historical agreements initiated by local councils on behalf of community leaders,⁸ and remains the preferred method of supply for all parties as it allows customers to self-manage their electricity payments. Recent Wujal Wujal Aboriginal Shire Council Minutes reaffirmed this position in the wake of Tropical Cyclone Jasper (see **Attachment C**). Many of the customers in these communities have never received an electricity bill due for payment.

Yurika Metering is the current MC for the three communities, and has a small, but dwindling, supply of Type 4 COMs. For commercial reasons, it is not viable for Yurika Metering to seek to increase its

³ Clause 7.8.3(a) of the NER provides that a MC must ensure that any new or replacement metering installation in respect of a small customer connection is a Type 4 meter. This is a tier 2 civil penalty provision.

⁴ The legal separation obligation required under clause 3.1(b) of the Guideline provides that a DNSP may provide distribution services and transmission services but must not provide 'other services'.

⁵ The branding and cross-promotion obligations required under clause 4.2.3 of the Guideline provide that a DNSP may not use the same branding for both regulated and unregulated services.

⁶ In this waiver application, 'metering services' refer to the services that are the responsibility of metering coordinators as set out in clause 7.3.1(a) of the NER.

⁷ AER, *Electricity distribution Ring-fencing Guideline Explanatory statement*, November 2016, p. 55.

⁸ Queensland Council of Social Service, 'Empowering remote communities', August 2014.

Ergon Energy Network's Ring-fencing Waiver Application

existing supply of Type 4 COMs. Type 6 COMs are installed as new and replacement meters in the 29 other COMs communities. Yurika Metering cannot install or maintain Type 6 COMs as it:

- does not have the appropriate system and process capability,
- cannot facilitate the publication of Type 6 COM meter data, and
- does not hold the appropriate MC accreditation with the Australian Energy Market Operator (AEMO) for Type 6 meters.

Once Yurika Metering's existing supply of Type 4 COMs is exhausted, it will no longer be able to install or replace meters in the three communities with COMs.

To continue the use of COMs in the three communities, and, in accordance with community expectations, Ergon Energy Retail is seeking to appoint Ergon Energy Network as the MC for the following reasons:

- Ergon Energy Network is the MC for the 29 non-grid connected COMs communities in regional Queensland.⁹
- Ergon Energy Network maintains an inventory of Type 6 COMs and has the appropriate technical and systems capability in place to appropriately maintain Type 6 COMs and Type 6 COM data.
- Ergon Energy Network is registered as an MC with AEMO for Type 6 metering installations, Yurika Metering is not.
- Ergon Energy Network has Metering Provider accreditation to provide, install and maintain Type 1- 6 metering installations.
- Ergon Energy Network has Metering Data Provider accreditation to provide metering data services for Type 1-6 metering installations.

Ergon Energy Retail is engaging with the Queensland Government in relation to a permanent solution which would see the three communities treated in the same manner as the other 29 COM communities. This would require regulatory change through a legislative amendment process.

2.3 Details of services for which the waiver is being sought

The other services for which this waiver is being sought are metering services in the three grid-connected COM communities. For the purposes of this waiver, metering services refers to services that are the responsibility of MCs as set out clause 7.3.1(a) of the NER. This includes, amongst other things, the provision, installation, and maintenance of COM installations.

⁹ Chapter 5 of the Queensland Competition Authorities Electricity Distribution Network Code, version 4.

Ergon Energy Network's Ring-fencing Waiver Application

2.4 Proposed waiver commencement date and expiry date

While Ergon Energy Retail engages with the Queensland Government in relation to permanent regulatory change, Ergon Energy Network proposes that a waiver be granted commencing immediately, extending through to 30 June 2030 (to align with the regulatory control period 2025-30), or upon the Queensland Government enacting regulatory change, whichever occurs first.

2.5 Potential costs if the waiver application is not granted

If the waiver is refused, the costs associated with Yurika Metering continuing to be the MC and providing metering services in the three communities is likely to be higher than if the waiver is granted and Ergon Energy Network is appointed the MC.

If the waiver is not granted, Yurika Metering would either:

- be required to source, purchase and implement new systems capability, and accreditation, in order to provide Type 6 COM services, as well as invest in a Type 6 COM inventory, or
- be required to increase its current Type 4 COM inventory, requiring purchase of Type 4 COMs at an uneconomic price point per unit.

Yurika Metering has no intention of offering Type 6 COM services. It is therefore not commercially feasible to seek solutions to the existing limitations. As the number of COMs needed would be relatively small (only three communities – approximately 433 residential customers), Yurika Metering would be at a disadvantage in negotiations with a supplier in relation to increasing its Type 4 COM inventory. Costs per unit would likely be prohibitively high. If Yurika Metering were required to pursue either of the above options if the waiver application is not granted, then the costs associated would likely be significantly higher than if the waiver were granted. Ergon Energy Network maintains an inventory of Type 6 COMs for use in the other 29 communities, already has the required systems capabilities and accreditation, and has increased commercial negotiation power as the volume of COMs needed is significantly larger than what Yurika Metering would need.

There are also potential reputational costs to Ergon Energy Network if the waiver is not granted. As previously discussed, the three communities prefer the ongoing use of COMs over post-paid meters. As Yurika Metering is unable to continue to supply COMs to the three communities, there may be an expectation that Ergon Energy Network will – as is the case elsewhere. An inability to meet the needs of the communities may adversely impact the goodwill associated with Ergon Energy Network.

2.6 Regulatory control periods to which the waiver would apply

The waiver may apply in two regulatory control periods:

1. The remainder of Ergon Energy Network's current period: 2020 – 2025, and
2. Ergon Energy Network's subsequent regulatory control period: 2025 – 2030.

Ergon Energy Network's Ring-fencing Waiver Application

2.7 Reasons why Ergon Energy Network considers the waiver should be granted

Clause 5.3.2(a) of the Guideline provides that the AER, in assessing a waiver application and deciding whether to grant a waiver or refuse to grant a waiver, must have regard to:

- i. The National Energy Objectives (NEO)
- ii. The potential for cross-subsidisation and discrimination if the waiver is granted or refused
- iii. Whether the benefit, or likely benefit, to electricity consumers of the DNSP complying with the obligation (including any benefit, or likely benefit, from increased competition) would be outweighed by the cost to the DNSP of complying with that obligation.

The National Electricity Law provides that:

The NEO is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:

- price, quality, safety and reliability and security of supply of electricity
- the reliability, safety and security of the national electricity system
- the achievement of targets set by a participating jurisdiction:
 - for reducing Australia's greenhouse gas emissions, or
 - that are likely to contribute to reducing Australia's greenhouse gas emissions.¹⁰

The first element of the NEO is of most relevance in considering this waiver application.

In examining whether an application for a waiver is appropriate and aligned with the NEO, the impacts on consumers must be at the core of the decision-making process.

Ergon Energy Network has made commitments to put consumers at the heart of how they operate. This is evidenced by our commitment to the Energy Charter (Charter).¹¹ The Charter aims to progress the culture and solutions required to deliver a more affordable, sustainable, and reliable energy system for all Australians.

If granted, the waiver would allow Ergon Energy Network to provide vital metering services to the three communities in the most economical manner. Ergon Energy Network already undertakes this role in the other 29 COM communities and is best placed to understand the needs of the three

¹⁰ Section 7, *National Electricity (Queensland) Law*.

¹¹ Available [here](#).

Ergon Energy Network's Ring-fencing Waiver Application

communities and to ensure the continued provision of metering services and the supply of electricity safely, reliably, and securely.

As stated above, if Yurika Metering were required to continue as MC in the three communities, this would have negative cost impacts and be duplicative of Ergon Energy Network's existing capabilities.

Cross-subsidisation

Ergon Energy Network submits that there would be no cross-subsidisation between its regulated services and non-regulated services when providing metering services in the three communities. Ergon Energy Network maintains separate accounts for its regulated distribution services, unregulated distribution services and non-distribution services in accordance with the principles and policies of its Cost Allocation Methodology (CAM).

Discrimination

The Guideline imposes obligations that aim to prevent discrimination. Ergon Energy Network submits that there is no discrimination in it providing metering services in the three communities. The contestable market is unable to provide Type 6 COMs services due to the requirements of the NER¹² and only DNSPs continue to be registered with AEMO to provide metering services for Type 6 meters.¹³ Additionally, outside the three communities, metering services in all other COM communities in regional Queensland are provided by Ergon Energy Network and there is no contestable market for COMs in Queensland.

Benefits

There is benefit in Ergon Energy Network being appointed as the MC and providing metering services through scale efficiencies and service quality. This would likely lead to better outcomes for consumers in the three communities and align with the approach taken in the 29 other COM communities in regional Queensland. The three communities continue to prefer the use of COMs over post-paid meters and there is benefit in allowing this practice to continue in alignment with community expectations.

3. CONCLUSION

In assessing the waiver, Ergon Energy Network submits that the AER should be satisfied that there is no benefit in requiring Ergon Energy Network to comply with the applicable provisions of the Guideline. Granting this waiver would promote the NEO and be beneficial to consumers in the three

¹² Clause 7.8.3(a) of the NER provides that a MC must ensure that any new or replacement metering installation in respect of a small customer connection is a Type 4 meter. This is a tier 2 civil penalty provision.

¹³ Registration in respect of connection points with a Type 5, 6 or 7 metering installation is no longer available post 1 December 2017 as a consequence of the implementation of rules 11.86.7 and 7.6.4 of the NER (AEMO *Guide to Application Registration Forms in the NEM*, p.15).

Ergon Energy Network's Ring-fencing Waiver Application

communities. Additionally, it is submitted that the AER should be satisfied that the risks of cross-subsidisation and discrimination are adequately addressed.

In granting a waiver from the legal, branding, and cross-promotion obligations of the Guideline, Ergon Energy Network considers there will be no harm to consumers broadly, and specifically to the consumers in the three communities, especially as it relates to the harms that the Guideline is trying to prevent. Ergon Energy Network has an AER approved CAM, which ensures separate accounts and reporting on transactions between itself and its affiliates. This ensures transparency over costs coming into Ergon Energy Network related to the provision of metering services in the three communities.

In relation to the second harm that the Guideline seeks to prevent, discrimination, Ergon Energy Network considers there is no potential for discrimination if the waiver is granted. The contestable market is unable to provide Type 6 COM services with only DNSPs still registered with AEMO to provide metering services for Type 6 meters. There is no contestable market for COMs in Queensland. Outside the three communities, metering services in all other COM communities are provided by Ergon Energy Network.

Ergon Energy Network submits that a waiver to allow it to provide metering services in the three communities meets the objective of the Guideline, promotes the NEO, and benefits the three communities in regional Queensland.