



Ergon Energy Ring Fencing Waiver Application

Other services provided to Queensland
Electricity Transmission Corporation Limited
14 October 2024



Part of Energy Queensland

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1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy) is a subsidiary of the Energy Queensland Group and is a Queensland Government Owned Corporation. Ergon Energy 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's supply area covers all of regional Queensland (the area of the State outside of the South East for which Energex operates the distribution network), which includes 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 distribution network, along with associated infrastructure such as major substations and power transformers.

Queensland Electricity Transmission Corporation Limited (Powerlink) is a Queensland Government Owned Corporation that owns, develops, operates and maintains the high-voltage electricity transmission network in Queensland. The network extends approximately 1,700 kilometres from the north of Cairns to the New South Wales border and covers significant areas of regional Queensland including urban and rural locations.

Powerlink has had a long-term relationship with Ergon Energy for the provision of support services in relation to the operation, maintenance, construction and refurbishment of Powerlink owned or controlled transmission assets in Queensland.¹ Ergon Energy's resources and expertise in the delivery of electricity network services has acted as an industry extension of Powerlink's own resource and service capability, by leveraging similar safety and specialised technical capabilities.

Current ring-fencing waiver

The National Electricity Rules (NER) require Ergon Energy to comply with the Australian Energy Regulator's (AER) Ring-fencing Guideline Electricity Distribution (the Guideline).² Ergon Energy is committed to compliance with the Guideline but is supportive of the grant of waivers by the AER where appropriate with a view to the better achievement of the National Electricity Objective (NEO) and net benefits in terms of the long-term interests of consumers.

¹ The first contractual arrangement between the parties was in the form of a Service Level Agreement (SLA) that commenced in the late 1990s.

² Version 3, which was published in November 2021.

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In December 2019, Ergon Energy applied to the AER for a waiver of the legal separation obligation under clause 3.1(b) and offices, staff, branding and promotions obligations under clause 4.2. of the Guideline.

In May 2020, the AER granted the waiver allowing Ergon Energy to provide support services to Powerlink. The support services included prescribed and negotiated transmission services.

In granting the waiver the AER noted that there was no benefit in requiring Ergon Energy to comply with the applicable provisions of the Guideline as it could be detrimental to consumers to not grant the waiver. Overall, the AER considered the risks of cross-subsidisation and discrimination were adequately addressed and that granting the waiver would promote the NEO.³

In June 2020, Ergon Energy and Powerlink entered into a service level agreement contract for the provision of the support services. This current contractual arrangement incorporated an initial term of three years plus an option to extend for two additional years. The current agreement is set to expire on 30 June 2025.

Ergon Energy and Powerlink are now seeking to enter into a new contract on terms to be negotiated. In order to continue to provide the same support services to Powerlink under a new contractual arrangement, Ergon Energy is seeking a waiver from its obligations under the Guideline. The support services Ergon Energy seeks to provide on behalf of Powerlink are the same as under the current waiver, all of which are prescribed or negotiated transmission services. The list of proposed services is detailed in the **Appendix**.

2. DESCRIPTION OF WAIVERS BEING SOUGHT

2.1 Obligation subject of the waiver

Ergon Energy is seeking a waiver of the legal separation obligation under clause 3.1(b)⁴ and offices, staff, branding and promotions obligations under clause 4.2, in order to provide support services to Powerlink to assist in the provision of prescribed and negotiated transmission services.

2.2 Reasons for seeking a waiver

As a distribution network service provider (DNSP), Ergon Energy is prohibited, under clause 3.1(b) of the Guideline, from providing 'other services'. It is Ergon Energy's understanding that the provision

³ AER – Final Decision – Ergon Energy Ring-fencing Waiver – May 2020.

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'.

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of support services to Powerlink would be considered 'other services'. Therefore, a ring-fencing waiver is required for Ergon Energy to continue to provide such services to Powerlink.

Transmission network service providers can, and do, actively source third parties to provide a range of services through competitive procurement processes. Powerlink currently delivers transmission maintenance activities utilising several internal and external service providers, as well as a number of other parties to deliver transmission project services. The portion of services allocated to Ergon Energy currently equates to approximately 35% of the total Powerlink maintenance program. This arrangement allows Powerlink the flexibility to allocate maintenance and project works on a case by case basis to Ergon Energy and other service providers where it is prudent and efficient to do so.

As a network service provider, Ergon Energy is required to adhere to safety frameworks, such as the Queensland *Electrical Safety Act 2002* and Regulations. Additionally, Ergon Energy, along with Energex and Powerlink, jointly developed the Queensland Electricity Entity Standard for Safe Access to High Voltage Electrical Apparatus. As a result, Ergon Energy has the existing capability and authority to provide services in relation to Powerlink's high voltage assets.

Powerlink engaged an external consultant to undertake market analysis to determine if there were other suitable contractors that met Powerlink's requirements to deliver the same scope of work as Ergon Energy. The market analysis evaluated a large number of service providers against 5 evaluation criteria of capability, capacity, location, credentials and compliance. The analysis identified that multiple suppliers would be required to meet the transmission services needs of Powerlink within regional locations. Powerlink has advised the costs involved in overseeing and ensuring compliance among multiple suppliers across the state would significantly increase the current contract administration and management costs associated with the provision of the services.

Powerlink considers that it can leverage and deliver efficiencies by accessing Ergon Energy's established footprint and skilled resources in regional Queensland.⁵ This will continue to provide efficiencies in service delivery for the benefit of all customers in regional Queensland.

⁵ As detailed in the Introduction, use of the term 'regional Queensland' in this waiver application refers to all of the State for which Ergon Energy is the DNSP. This includes urban centres, such as Gladstone and Townsville, as well as rural Western Queensland.

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Queensland Government Commitments

In addition to the provision of prescribed and negotiated transmission services, Powerlink will play a significant role in the rollout of transmission infrastructure projects in support of Queensland Government commitments.

In September 2022, the Queensland Government published the Queensland Energy and Jobs Plan (QEJP)⁶ and SuperGrid Infrastructure Blueprint⁷ which outline how Queensland's energy system will transform to deliver clean, reliable and affordable energy. Powerlink is the implementation lead for a number of activities under the QEJP and will be responsible for a number of work programs under the Infrastructure Blueprint, including:

- Progressing early design and planning for the SuperGrid backbone transmission, including proposed priority transmission projects such as:
 - Connecting the Borumba Pumped Hydro Energy Storage (PHES)
 - Expanding the connection of Southern Queensland to Central Queensland
 - Connecting the Pioneer-Burdekin PHES into Central and Northern Queensland
 - Connecting Hughenden and Townsville, unlocking more renewables;
- Establishing the Renewable Energy Zone (REZ) Delivery Body to plan and deliver transmission infrastructure in Queensland's REZs which includes Phase 1 'Building on strong foundations' (2002 to 2024), Phase 2 'Scaling and expanding opportunities' (2024 to 2028) and Phase 3 'Preparing for net zero' (2028 onwards);
- Delivering the Central Queensland Gladstone Grid reinforcement; and
- Providing additional capacity on the Southern and Darling Downs.

Powerlink's roles, responsibilities and deliverables under the QEJP and Infrastructure Blueprint, along with the further proposed transmission connection from Hughenden to Mount Isa (CopperString), represent a significant increase in its project delivery requirements. In preparation for these works and, as part of the QEJP, Powerlink has commissioned, two regional transmission

⁶ The QEJP can be accessed [here](#).

⁷ The SuperGrid Infrastructure Blueprint can be accessed [here](#). The Blueprint contains maps which detail the proposed locations of future backbone transmission infrastructure.

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and training hubs to help develop critical skills that will be needed in the energy transformation.⁸ These regional transmission hubs are located in Gladstone and Townsville and will support the efficient delivery of some transmission services in those regions through development and growth of the Powerlink workforce and the contractor workforce in those regions. While these hubs are making a positive contribution to Powerlink and future contractor workforce in regional Queensland, Ergon Energy's resources, expertise and geographical reach remain fundamental to Powerlink's ability to deliver the significant volume of future work and emergency response across all regional Queensland locations.

2.3 Details of services for which the waiver is being sought

A detailed list of the services for which the waiver is being sought is provided in the **Appendix**. The services proposed are substantially similar to those provided by Ergon Energy under the current AER approved waiver.

The proposed scope of the support services to be provided by Ergon Energy under a new contractual arrangement would see Ergon Energy delivering approximately 35% of Powerlink's total maintenance works, with project works allocated to Ergon Energy on a case by case basis, where it is prudent and efficient to do so. As described above in section 2.2, Powerlink has contracts in place with several other maintenance and project service providers who contribute to the delivery of the remaining maintenance and project works. Ergon Energy is regionally located within the same geographical areas as some of Powerlink's asset base and has the requisite skills, knowledge and capacity to undertake the transmission services efficiently. Powerlink does not have the same regional presence and utilising Ergon Energy for these services provides an efficient delivery model.

2.4 Proposed waiver commencement date and expiry date

Ergon Energy proposes that the waiver commence immediately upon the expiration of the existing waiver, from 1 July 2025, and expire at the end of the subsequent regulatory control period, on 30 June 2035. The proposed expiration date aligns with the end of Ergon Energy's regulatory control period that follows the period in which the proposed new waiver will commence.⁹

2.5 Potential costs if the waiver application is not granted

If the waiver is refused, Powerlink would be less able to leverage efficiency savings of Ergon Energy performing the required transmission services. This could result in higher costs to Powerlink (and

⁸ The regional transmission and training hubs will be located in Townsville and Gladstone.

⁹ As allowed under clause 5.3.4(b) of the Guideline.

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therefore all network customers) as Powerlink would be required to attempt to procure support services from multiple providers across regional Queensland significantly increasing the current administration costs. The administration and management of multiple services agreements would not enable savings, as a consequence of economies of scale inherent in single provider arrangements (such as the agreement currently in place between Powerlink and Ergon Energy). These costs would be passed onto consumers. However, by engaging Ergon Energy, Powerlink is able to reduce its costs associated with engaging multiple providers.

2.6 Regulatory control periods to which the waiver would apply

The waiver would apply in two regulatory control periods:

1. 2025 – 2030; and
2. Ergon Energy's subsequent regulatory period, 2030 – 2035.

2.7 Reasons why Ergon Energy 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 NEO;
- ii. The potential for cross-subsidisation and discrimination if the waiver is granted or refused; and
- 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.

National Electricity Objective

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; and
- the achievement of targets set by a participating jurisdiction:

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- for reducing Australia's greenhouse gas emissions¹⁰; or
- that are likely to contribute to reducing Australia's greenhouse gas emissions.¹¹

Each of the elements of the NEO are of importance in considering this waiver application. In examining the contractual arrangement and 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 and Powerlink have made commitments to put consumers at the heart of how they operate their respective businesses. This is evidenced by their commitment to the Energy Charter (Charter). The Charter aims to progress the culture and solutions required to deliver a more affordable, sustainable and reliable energy system for all Australians. In recent years, the Charter has placed greater focus on cross-sector collaboration to continue to deliver better outcomes for customers at a time of unprecedented change and transformation in the energy industry.

The contractual arrangement between Ergon Energy and Powerlink was initially established to ensure that vital specialised support services would be provided to Powerlink. Ergon Energy continues to have the necessary resources, expertise, and established footprint throughout regional Queensland to provide these services. There continues to be significant benefit in having Ergon Energy undertake the work for Powerlink as it has a deep understanding of the network assets from a 'whole of network' perspective and can leverage economies of scale which helps reduce costs to consumers.

The waiver would allow Ergon Energy to provide Powerlink with support services that are in the long-term interests of Queensland consumers. In particular, the services being provided to Powerlink are in regional and remote areas where transmission assets are located and there is limited or no alternative service providers currently operating, as identified in the market analysis described earlier in this application. Ergon Energy, as result of working in the same geographic area for decades, has invaluable local knowledge of the area including the terrain, operating environment and established relationships with landowners and other stakeholders.

¹⁰ The Queensland Government has passed the *Energy (Renewable Transformation and Jobs) Act 2024* and the *Clean Economy Jobs Act 2024*, which legislate renewable energy and greenhouse gas emissions targets in Queensland.

¹¹ Section 7, *National Electricity (Queensland) Law*.

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Cross-subsidisation

Powerlink

Under the waiver, the AER would continue to have oversight over any potential cross-subsidisation through its consideration of Powerlink's transmission determination. Powerlink also has, and complies with, its AER approved Cost Allocation Methodology (CAM). Ergon Energy considers that the regulatory determination process, as well as Powerlink's application of its CAM, mitigates any risk of cross-subsidisation.

Ergon Energy

Ergon Energy submits that there will be no cross-subsidisation between its regulated distribution services and the other services it would provide on behalf of Powerlink as a result of the waiver. Ergon Energy maintains separate accounts for its regulated distribution services, unregulated distribution services and non-distribution services in accordance with the principles and policies of its CAM.

As a result of the principles of the CAM, the operation of the contractual arrangement may result in costs being shared between different classes of services but would prevent the same costs being attributed to more than one category. As a result, Ergon Energy would not cross-subsidise the provision of the support services to Powerlink.

This provides efficiencies to the customers of both Ergon Energy and Powerlink and is in their long-term interest.

Discrimination

The Guideline is primarily focussed on discrimination in favour of a DNSP's affiliate, and against non-affiliates to allow space for competition and innovation to develop. Separating the provision of direct control services from the provision of other services is intended to mitigate risk of DNSPs favouring their own contestable services over other providers.

For the reasons detailed above, Ergon Energy submits that there is no discrimination in providing support services to Powerlink. Powerlink engaged an external consultant to assess the market and found that while there are market participants who have some of the requisite experience, resource capability/capacity, asset knowledge and geographic presence, none have the breadth and depth of coverage, capability and experience of Ergon Energy to provide transmission services in regional locations.

Powerlink actively sources other third parties to provide a range of services through competitive procurement processes. The portion of services allocated to Ergon Energy currently equates to

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approximately 35% of the total Powerlink maintenance program. Powerlink has the flexibility to allocate maintenance and project works on a case by case basis to other service providers where it is prudent and efficient to do so. This allows space for other service providers to compete should they be identified as having the capability, capacity, location, and credentials to do so.

In the AER's Final Decision, dated May 2020, to grant Ergon Energy a waiver to provide field services on behalf of Powerlink, the AER noted that it did not consider there to be a risk of Ergon Energy having a discriminatory advantage in providing field services to Powerlink.

Benefit to consumers

Ergon Energy considers that the costs of complying with the relevant obligation would be borne by Powerlink (and therefore all network customers) through increased costs if Powerlink were to be required to attempt to source the provision of support services from multiple parties rather than Ergon Energy. There is no benefit to electricity consumers if Ergon Energy is prevented from providing support services to Powerlink, particularly given the increased challenge to deliver on Queensland Government commitments to a timely energy transformation in Queensland. Powerlink currently utilises several parties in addition to Ergon Energy to deliver transmission maintenance and project services. There is benefit to Queensland consumers in Ergon Energy delivering support services across regional Queensland to leverage scale efficiencies and enable the timely delivery of quality support services and emergency response. Administration costs associated with managing a single contracted provider is significantly less compared with managing multiple contracted service providers. The aim of both Powerlink and Ergon Energy, in entering into a new contractual arrangement, is to deliver better outcomes for customers.

3. CONCLUSION

Ergon Energy submits that there is no benefit in requiring Ergon Energy to comply with the applicable provisions of the Guideline and that the granting of the waiver would promote the NEO, would not be detrimental to consumers and that the risks of cross-subsidisation and discrimination either do not arise or are adequately addressed.

The maintenance of transmission network assets is a specialised industry which requires highly skilled labour, and, in this case, Ergon Energy is best placed to provide the support services to Powerlink given its long-standing and proven expertise and experience with transmission network assets. If the waiver is granted, Powerlink and Ergon Energy would enter into a new commercially negotiated contractual arrangement as two separate and distinct entities.

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APPENDIX

Detailed List of Support Services Subject to Waiver Application¹²

Transmission maintenance works in Ergon Energy's distribution area, include the following:

- Support maintenance (emergency response, planned and unplanned), including transformer and high voltage test services and transmission line high voltage live work
- Metering diagnostic services (e.g., meter testing and accuracy calibration) under Powerlink's Accreditation and Registration
- Switching for high voltage isolation and access
- Substation and equipment safety testing services
- Plant management and defect reporting
- Forced outages and human error investigations
- Recommissioning or replacement of high voltage plant
- Regional Queensland representation for Powerlink

Project works in Ergon Energy's distribution area:

- Construction works for both transmission lines and substations
- Transformer and high voltage test services
- Factory acceptance testing of secondary systems
- Site acceptance testing of secondary systems
- Safety observers
- Site supervision and inspections

Auxiliary services in Ergon Energy's distribution area:

- Property/easement inquiries
- Stores management and facility rental
- Outage coordination services

¹² No change in proposed services from current waiver.