

# 1. Introduction

Ergon Energy Corporation Limited's (Ergon Energy) Regulatory Proposal sets out our regulated distribution services and the revenue and prices associated with them for the regulatory control period commencing on 1 July 2015 and ending on 30 June 2020.<sup>1</sup>

Our proposal, and our overview of the proposal,<sup>2</sup> complies with the requirements detailed in the National Electricity Rules (NER) and the National Electricity Law (NEL). This includes information we must provide in order for the Australian Energy Regulator (AER) to make the necessary decisions and determinations under the NER.

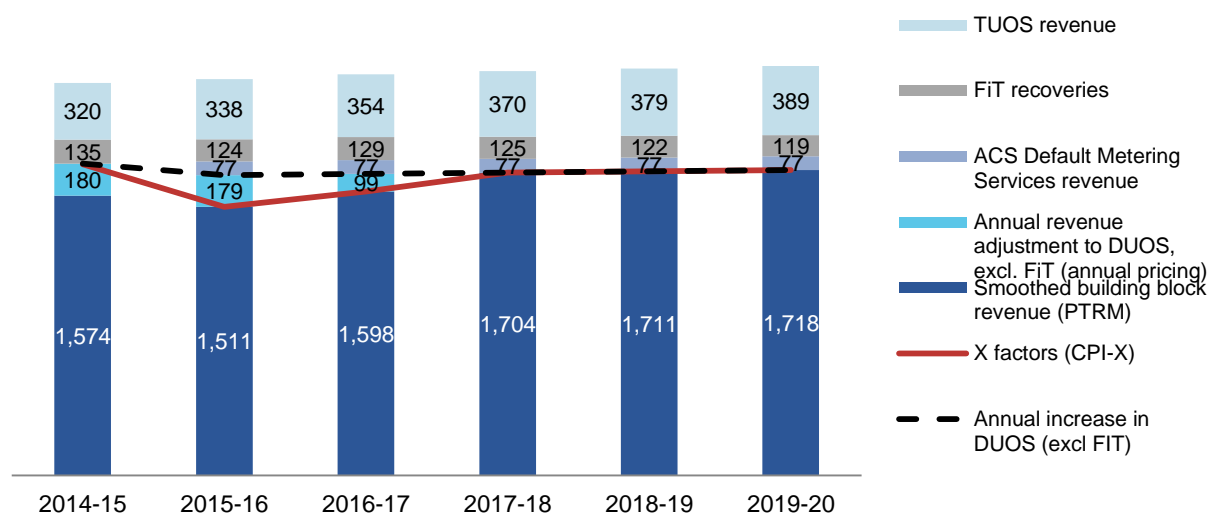
## 1.1 Overview of our Regulatory Proposal

For the next regulatory control period, Ergon Energy proposes:

- a nominal **decrease** in aggregate Distribution Use of System (DUOS) charges (excluding Solar Bonus Scheme feed-in tariff (FIT) costs) of **3.7% in 2015-16**
- annual changes in aggregate DUOS charges (excluding FIT) over the period that average less than inflation.

The following chart summarises the indicative movements in the aggregate network charges for the next regulatory control period, including annual increases in DUOS charges (excluding FIT) which represents the substance of our Regulatory Proposal.

Figure 1: Movement in aggregate expected network charges, 2014-20 (\$m, nominal)<sup>3</sup>



	2015-16	2016-17	2017-18	2018-19	2019-20
- - - Annual increase in DUOS (excl. FIT)	-3.7%	0.4%	0.4%	0.4%	0.4%
- - - X Factors (CPI - X)	15.9%	-3.1%	-3.9%	2.1%	2.1%

<sup>1</sup> This proposed term is consistent with the length of the current regulatory control period and is the minimum duration for a regulatory control period permitted under clause 6.3.2(b) of the NER.

<sup>2</sup> 0A.00.01 – An Overview, Our Regulatory Proposal 2015-20

<sup>3</sup> Revenue from Type 5 and 6 metering installation, provision, maintenance, reading and data services was previously included in DUOS in 2014-15. Since this service will be an Alternative Control Service in the next regulatory control period, revenue associated with this service has not been included in DUOS for 2015-20.

There have been substantial increases in the network component of customer electricity bills in the current regulatory control period 2010 to 2015. Through our engagement program, we have a clear understanding of the level of concern about rising electricity prices. Reducing what we charge for the use of the distribution network in 2015-16 and having increases over the next five years<sup>4</sup> below the Consumer Price Index (CPI) is in line with our commitment to delivering the best possible price.

Further, in formulating our plans we have also considered our commitments around delivering peace of mind, by way of a safe, dependable electricity service, and supporting greater customer choice and control in electricity supply solutions.

Our indicative analysis of the impact of distribution charges (excluding FiT adjustments) for a typical residential customer in the next regulatory control period is shown in Table 1 below.

**Table 1: Historic and proposed increases to our revenue requirements and associated residential price impact<sup>5</sup>**

\$ nominal	Historic annual increases in 2011-15				Annual increases in 2015-20				
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
% change	8%	9%	11%	10%	(6%)	(4%)	(1%)	(1%)	(1%)
\$ change	\$53	\$69	\$91	\$90	\$ (58)	\$ (36)	\$ (6)	\$ (10)	\$ (5)
Estimated impact of DUOS increase on retail bill	4%	5%	6%	5%	(3%)	(2%)	0%	(1%)	0%

In addition to standard charges for use of the distribution network, Ergon Energy proposes:

- a new charge for Default Metering Services (Type 5 and 6 meters) in line with the AER's Framework and Approach Paper
- a nominal (and real) price decrease between 2014-15 and 2015-16 for Public Lighting Services,<sup>6</sup> as well as a price path of CPI + 0.60% for the final four years of the period
- other user specific charges, which are proposed consistent with our approach in the current regulatory control period.

## 1.2 Regulatory Proposal documentation

The information requirements for our Regulatory Proposal are extensive.<sup>7</sup> Our Regulatory Proposal therefore includes this main proposal document (including appendices), our overview and a series of supporting documents, attachments, models and referenced material which provide

<sup>4</sup> Refers to price changes between 2014-15 and 2019-20.

<sup>5</sup> This table is based on the Queensland Competition Authority's (QCA) assumptions of a typical residential customer in Queensland consuming 4,091 kWh per annum (held constant). Indicative prices are based on assumptions of future revenue and volumes consistent with our Regulatory Proposal. Rates are indicative for the potential impact on a residential customer who is on a market retail contract. Customers on Notified Prices are on specific arrangements consistent with the Queensland Government's Uniform Tariff Policy. For further information on how regulated retail tariffs are determined go to <http://www.dews.qld.gov.au/energy-water-home/electricity/prices>.

<sup>6</sup> This is based on a customer with a mix of 'Ergon Energy Owned & Operated' and 'Gifted & Ergon Energy Operated' public lights consistent with the overall inventory mix on Ergon Energy's network. Refer to Section 8.2 of 05.01.01 – Public Lighting Services Summary.

<sup>7</sup> Clause 6.8.2(c) of the NER dictates what a regulatory proposal must include. Other information is also provided to comply with the NER and to assist the AER perform its functions under the NEL.

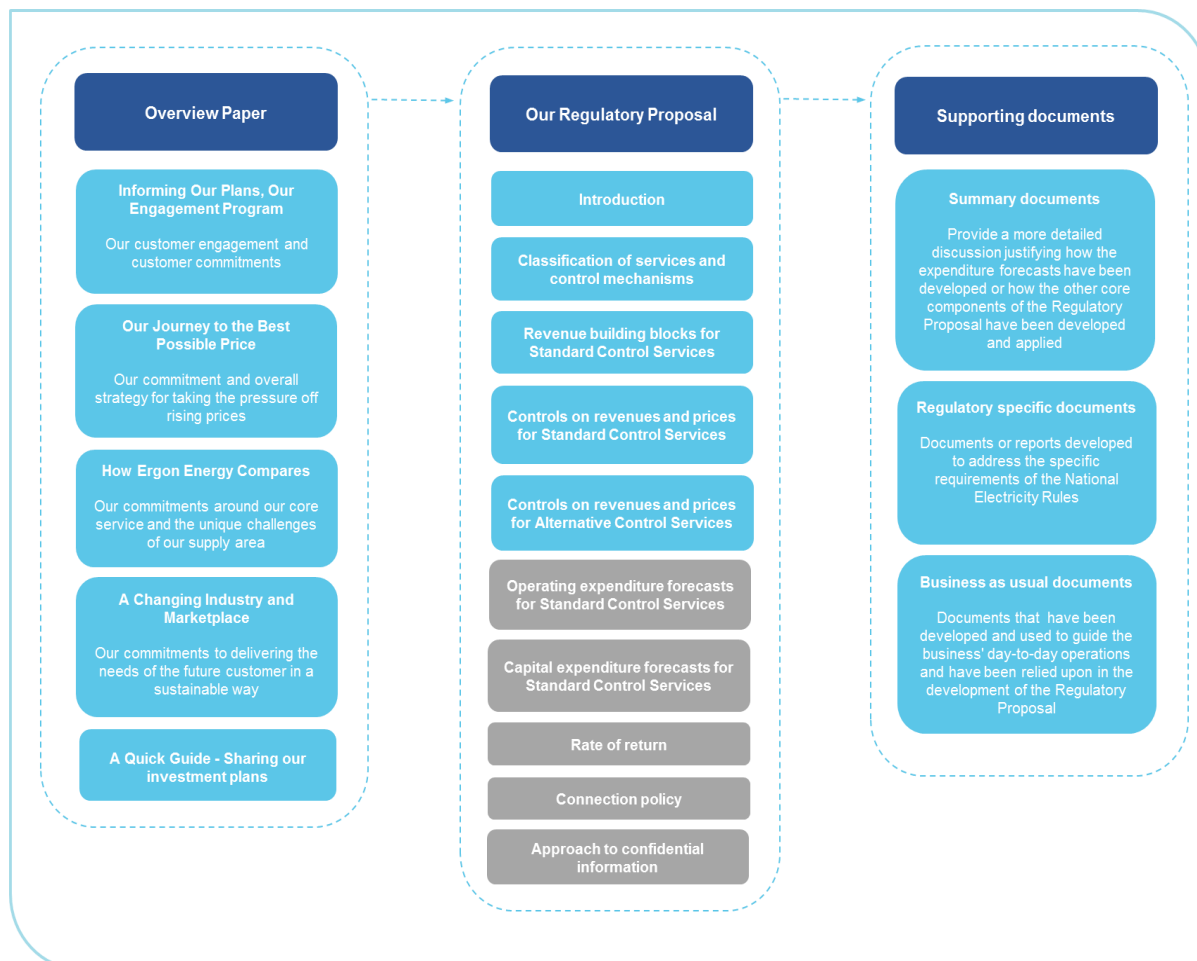
information addressing specific regulatory issues and requirements, business as usual policies, procedures and practices, and financial and regulatory models. Each of these documents should be considered by the AER in making its Distribution Determination.

Accompanying our Regulatory Proposal are the following documents:

- *An Overview, Our Regulatory Proposal 2015-20*,<sup>8</sup> summarising key matters of importance to electricity consumers<sup>9</sup>
- further supporting information to assist our customers understand how they have informed our plans, our response to the challenge of providing services to our customers in a changing energy market, and how we have arrived at our proposed prices
- information required by the Regulatory Information Notice (RIN) under clause 6.8.2(d) of the NER.<sup>10</sup> The RIN is used by the AER to collect information it considers necessary to assess our Regulatory Proposal. We have addressed the requirements of the RIN in this Regulatory Proposal and our supporting documents.

A graphical depiction of the suite of information prepared with our Regulatory Proposal is provided in Figure 2.

**Figure 2: Overall structure of our Regulatory Proposal package**



<sup>8</sup> OA.00.01 – *An Overview, Our Regulatory Proposal 2015-20*

<sup>9</sup> This includes the matters required under clause 6.8.2(c1) of the NER.

<sup>10</sup> Ergon Energy assumes the AER's instrument covers the information the AER requires under clause 6.8.2(c2) of the NER, consistent with the AER's Framework and Approach Paper.

## 1.3 Ergon Energy as a business

Ergon Energy is a Queensland Government-owned corporation whose principal activity is the operation of the electricity distribution system in regional Queensland. Ergon Energy holds a Distribution Authority, administered by the Director-General of the Queensland Department of Energy and Water Supply, to perform this function.

We supply electricity across a service area of more than one million square kilometres – 97% of the state of Queensland. Around 70% of the network's powerlines are considered rural, with a very low customer density and largely radial profile. We have a team of 4,415 employees who live by our values to safely deliver more than 15,000GWh of electricity annually to around 725,000 customers.

In addition to our grid-connected distribution system, the AER is responsible for the economic regulation of the Mount Isa–Cloncurry network.<sup>11</sup> Accordingly, Ergon Energy has included the Mount Isa–Cloncurry network in this Regulatory Proposal.<sup>12</sup> This is consistent with the approach adopted in the AER's Distribution Determination for the current regulatory control period 2010-15.

Ergon Energy has included a supporting document, *How Ergon Energy Compares*,<sup>13</sup> which provides more information on our distribution business, customers, network and operating environment.

In addition to our core distribution business, Ergon Energy owns and operates:

- Ergon Energy Queensland Pty Ltd (EEQ), which provides electricity retail services to non-market customers in our distribution area. EEQ owns and operates the Barcaldine Power Station
- Ergon Energy Telecommunications Pty Ltd (EET), which services our communication needs and, as a licensed telecommunications carrier, offers the Queensland marketplace wholesale high-speed data services.

Ergon Energy is also a shareholder of SPARQ Solutions Pty Ltd (SPARQ), a joint venture with Energex Limited (our south-east Queensland counterpart), which provides information and communications technology (ICT) solutions and services to both organisations.

EET and EEQ's services are not regulated by the AER and are not covered in this Regulatory Proposal. However, some of SPARQ's ICT services are related to the provision of distribution services by Ergon Energy and are reflected accordingly in our Regulatory Proposal.

## 1.4 Other relevant matters

### 1.4.1 Framework and Approach

The Framework and Approach Paper sets out the AER's decisions and proposed approaches to a number of matters relevant to the Distribution Determination, such as the classification of distribution services, the forms of control to be applied and the application of incentive schemes.

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<sup>11</sup> Section 10 of the *Electricity National Scheme (Qld) 1997* treats the Mount Isa–Cloncurry supply network (which is not connected to the national grid) as a distribution system as if it were part of the national grid.

<sup>12</sup> Ergon Energy requests that the AER have regard for clause 6.8.2(e) of the NER and make a determination that Ergon Energy shall make one Regulatory Proposal that encompasses both the grid-connected network and the Mount Isa–Cloncurry network.

<sup>13</sup> Refer to *0A.01.01 – How Ergon Energy Compares*.

The AER issued the Framework and Approach Paper for Ergon Energy on 30 April 2014.<sup>14</sup> Ergon Energy has taken the outcomes of the AER's Framework and Approach Paper into account in preparing this Regulatory Proposal.

### 1.4.2 Expenditure Forecast Methodology

On 29 November 2013, Ergon Energy notified the AER of the methodologies we proposed to use to forecast our capital and operating expenditure for the regulatory control period 2015-20. Our Expenditure Forecast Methodology<sup>15</sup> was developed in accordance with the NER and the AER's Expenditure Forecast Assessment Guideline. A copy of our Expenditure Forecast Methodology is available on our website.<sup>16</sup>

Our forecasts are broadly consistent with the forecasting method established in the Expenditure Forecast Methodology. We explain how Ergon Energy's Expenditure Forecast Methodology is applied to our operating and capital expenditure forecasts (including any departures from our published methodology) in Appendix A and Appendix B, respectively, and our summary documents.

### 1.4.3 Sunset of transitional arrangements for current regulatory control period

Clause 11.16 of the NER sets out the transitional arrangements for the first Distribution Determination made by the AER for the Queensland Distribution Network Service Providers (DNSPs). These transitional arrangements applied for the current regulatory control period and will cease to have effect in the next regulatory control period 2015-20. In addition, changes to the NER during the current regulatory control period resulted in a number of transitional arrangements which will also cease to have effect.

The transitional arrangements related to the following matters:

- the treatment of assets included in the Regulatory Asset Base (RAB)<sup>17</sup>
- Capital Contributions Policy and treatment of capital contributions in the RAB<sup>18</sup>
- Efficiency Benefit Sharing Scheme (EBSS)<sup>19</sup>
- Service Target Performance Incentive Scheme (STPIS)<sup>20</sup>
- jurisdictional schemes<sup>21</sup>
- the recovery of charges for using the non-regulated 220 kV network which supplies the Cloncurry township<sup>22</sup>
- the recovery of entry and exit charges relating to non-regulated connection points between Powerlink's transmission network and our distribution network.<sup>23</sup>

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<sup>14</sup> Available at <http://www.aer.gov.au/node/20186>.

<sup>15</sup> As required by clause 6.8.1A of the NER.

<sup>16</sup> Refer to <https://www.ergon.com.au/network/network-management/future-investment/future-direction>.

<sup>17</sup> NER, clause 11.16.3.

<sup>18</sup> NER, clauses 11.16.10 and 11.46.6.

<sup>19</sup> NER, clause 11.16.4.

<sup>20</sup> NER, clause 11.16.5.

<sup>21</sup> NER, clause 11.35.

<sup>22</sup> NER, clause 11.39.6.

<sup>23</sup> NER, clause 11.39.6.

Further information on the cessation of these transitional arrangements and how they impact the Regulatory Proposal is contained in our supporting document *01.01.02 – The Effect of Transitional Arrangements*.

#### **1.4.4 Transitional arrangements for regulatory control period commencing 1 July 2015**

Clause 11.60 of the NER sets out the transitional provisions that apply to Ergon Energy for the next regulatory control period.

The transitional provisions effectively provide that a final Distribution Determination (the Preliminary Determination) will be made by the AER by 30 April 2015, with a revocation and substitution of the Preliminary Determination (the Substitute Determination) by 31 October 2015.<sup>24</sup>

Because the Substitute Determination is made after the commencement of the next regulatory control period, adjustments may be necessary to account for changes between the Preliminary and Substitute Determination.<sup>25</sup>

#### **1.4.5 Legislative and regulatory obligations**

Ergon Energy must comply with numerous legislative and regulatory obligations, and Queensland Government policy requirements, in the next regulatory control period. Some of these obligations directly impact our expenditure forecasts. Our supporting document *01.01.01– Legislative and Regulatory Obligations and Policy Requirements* provides further information on the obligations applicable to Ergon Energy.

We have also provided more detail around specific obligations relevant to:

- capital expenditure forecasts in Appendix B and in relevant supporting documentation for each capital expenditure category
- operating expenditure forecasts in Appendix A and in relevant supporting documentation
- public lighting and metering services in Chapter 5 and in relevant supporting documentation.

#### **1.4.6 Compliance with NER requirements**

The supporting evidence in our Regulatory Proposal package which demonstrates compliance with our relevant compliance obligations under Chapter 6 of the NER is outlined in our supporting document *01.02.01 – NER Compliance Matrix*. We have done this in order to assist the AER undertake its preliminary examination of the Regulatory Proposal.<sup>26</sup>

#### **1.4.7 Negotiating framework**

Neither the AER nor Ergon Energy have proposed that any services be classified as negotiated distribution services in the next regulatory control period. In its Framework and Approach Paper, the AER decided to maintain its current position that a distributor need not submit a negotiating framework if it does not provide negotiated services.<sup>27</sup>

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<sup>24</sup> NER, clause 11.60.4(c).

<sup>25</sup> Our supporting document *04.01.00 – Compliance with Control Mechanisms* provides some detail on how this will apply.

<sup>26</sup> NER, clause 6.9.1.

<sup>27</sup> AER (2014a), *Final Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015*, April 2014, p154.

Since that time, the AER has revised its position and has informally requested Ergon Energy to submit a negotiating framework. We understand the AER is requesting us to provide a negotiating framework for its own compliance purposes. Our negotiating framework can be found at supporting document *01.01.03 – Ergon Energy’s Negotiating Framework*.

#### 1.4.8 Confidential information

The information contained in this main proposal document is public information. However, some of the information in documents supporting our Regulatory Proposal is information that Ergon Energy considers to be confidential information.

Our specific confidentiality request and claims, which are made in accordance with the AER’s Confidentiality Guideline, are summarised in Appendix E.

### 1.5 Supporting documentation

The following documents referenced in this chapter accompany our Regulatory Proposal:

Name	Ref	File name
An Overview, Our Regulatory Proposal 2015-20	0A.00.01	An Overview Our Regulatory Proposal
Regulatory Information Notice	N/A	Our response to the AER’s RIN is contained in a number of files attached to this proposal
How Ergon Energy Compares	0A.01.01	How Ergon Energy Compares
Legislative and Regulatory Obligations and Policy Requirements	01.01.01	Legislative and Regulatory obligations
The Effect of Transitional Arrangements	01.01.02	Effect of Transitional Arrangements
Ergon Energy Negotiating Framework	01.01.03	Negotiating Framework
NER Compliance Matrix	01.02.01	Compliance checklist
Compliance with Control Mechanisms	04.01.00	Compliance with control mechanisms