

Ref: JD/BC

Date: 31 July 2013



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Dear Mr Anderson

SUBMISSION ON WHETHER IT IS NECESSARY OR DESIRABLE TO AMEND OR REPLACE THE CURRENT FRAMEWORK AND APPROACH PAPERS

Thank you for the invitation to respond to your consultation on the current Framework and Approach (F&A) papers applying to Queensland Distribution Network Service Providers (DNSPs).

We understand that this consultation will assist the Australian Energy Regulator (AER) to make a decision on whether it is necessary or desirable to amend or replace matters in the current F&A for the next regulatory control period (i.e. 1 July 2015 to 30 June 2020).

We also understand that, in addition to decisions made under this consultation process, the AER must publish a F&A paper for:

- Any matters where no F&A currently applies; or
- Any matters where a DNSP requests an amendment or replacement in respect of that matter (pursuant to clause 6.8.1(c)(1) of the National Electricity Rules (Rules)).

Ergon Energy believes that at least one of the matters addressed in the current 2010–15 F&A papers should be amended or replaced. Therefore, in accordance with clause 6.8.1(c)(1) of the Rules, Ergon Energy submits a written request to the AER outlining our reasons for its amendment or replacement. A copy of this request is provided at **Attachment 1**.

In addition to the matters the AER is required to consult on under clause 6.8.1(c)(2) of the Rules, we consider that all stakeholders would benefit from early consultation on:

- Other matters that form part of the current F&A which are not listed in clause 6.8.1(b) of the Rules – these are outlined in Chapter 5 of the AER's *Final F&A paper, Application of schemes, Energex and Ergon Energy 2010–15* (November 2008). We consider there would be benefit in clarifying which of these matters, if any, will apply in the F&A for the next regulatory control period.
- Additional matters not listed in clause 6.8.1(b) of the Rules but which may benefit from early consultation to ensure a smooth process for establishing revenue requirements and control mechanisms in the next regulatory control period. These are outlined below.

There are no other specific reasons warranting Ergon Energy to request an amendment for any other matter listed in clause 6.8.1(b). However, we anticipate that the AER will seek to consult on new matters not listed in the current F&A. We also expect that the AER may decide it is necessary and desirable to consult on other matters in the current F&A following decisions in other jurisdictions and the most recent changes to Chapter 6 of the Rules. We look forward to contributing to this consultation when it occurs.

Adjustments to revenue and pricing controls as a result of the expiry of certain transitional arrangements

Ergon Energy is aware that there are a number of transitional arrangements which will no longer apply in the next regulatory control period. The removal of these transitional arrangements will, in many circumstances, result in a change in how costs are recovered. There may be benefit in engaging early with stakeholders on how these arrangements will change and the impact on inputs to the Regulatory Proposal. In particular, there may be benefit in clarifying the arrangements to transition between regulatory control periods. Arrangements which will change include:

- The treatment of capital contributions in calculating the Annual Revenue Requirement;
- The treatment of solar feed-in tariffs;
- The treatment of assets included in the Regulated Asset Base that are used to provide standard control, alternative control and unregulated services under transitional arrangements;
- The recovery of charges for using the non-regulated 220kV network which supplies the Cloncurry township; and
- The recovery of entry and exit charges relating to non-regulated connection points between Powerlink's transmission network and our distribution network.

Revenue adjustments for the carry forward of over-recovery or under-recovery of revenue for this period

In order to establish an appropriate forecast of indicative prices in the Regulatory Proposal, there would be benefit in engaging on the approach the DNSP should take in the carry-forward of any over-recovery or under-recovery of revenues from the current regulatory control period.

Approach to Capital Contributions policy in the absence of NECF Rule requirements

Transitional arrangements apply to Ergon Energy in respect of our capital contributions policy. In the absence of National Energy Customer Framework rules applying to Ergon Energy in the next regulatory control period, we believe there may be benefit in engaging with stakeholders on how capital contributions arrangements will be applied in the next regulatory control period.

Should you require additional information or wish to discuss any aspect of our submission, please do not hesitate to contact Jenny Doyle, Group Manager Regulatory Affairs on (07) 4092 9813 .

Yours sincerely



Graeme Finlayson
Company Secretary and General Counsel
Ergon Energy

Attachment 1

Request to amend or replace the current Framework and Approach paper applying to Ergon Energy

Regulatory Provisions

Under clause 6.8.1(c)(1) of the National Electricity Rules (Rules), a Distribution Network Service Provider (DNSP) may request the Australian Energy Regulator (AER) in writing to make an amended or replacement Framework and Approach (F&A) paper in respect of certain matters that are set out in the F&A paper(s) currently applying to that DNSP. As identified in clause 6.8.1(b) of the Rules. Note, not all matters listed in this clause apply to Ergon Energy in the 2010–15 regulatory control period. As such, they are not discussed in the current F&A papers and the AER is required to make a F&A paper in relation to these matters under clause 6.8.1(a)(1) of the Rules. The request must specify the DNSP's reasons for making the request.

The request must be submitted by no later than 23 months before the end of the regulatory control period that precedes that for which the Distribution Determination is to be made. Clause 11.60.3(c) of the Rules. This transitional rule amends the 32 month timeframe outlined in clause 6.8.1(c)(1) of the Rules for Ergon Energy's 2015–20 regulatory control period. This means Ergon Energy must submit a request no later than 31 July 2013.

Matters set out in the current Framework and Approach paper

In Queensland, there are currently two F&A papers:

- Stage 1 – Classification of services and control mechanisms. This paper details the AER's likely approach to the classification of services and the control mechanisms to apply to Energex and Ergon Energy in the 2010–15 regulatory control period.
- Stage 2 – Application of schemes. This paper sets out the AER's likely approach to the application of the following incentive schemes in the 2010–15 regulatory control period:
 - Service Target Performance Incentive Scheme;
 - Efficiency Benefit Sharing Scheme; and
 - Demand Management Incentive Scheme.

It also outlines the AER's consideration of other matters raised by Energex and Ergon Energy.

Matters to be amended or replaced

Ergon Energy requests that the classification of services set out in Appendix B of the *Final decision, Framework and approach paper, Classification of services and control mechanisms, Energex and Ergon Energy 2010–15* to be amended to include additional activities relating to the retrofitting of energy efficient street lights at a customer's request.

Ergon Energy further requests that the AER review (and, if appropriate, amend or replace) the elements of the two existing F&A papers that relate to matters not specified in clause 6.8.1(b).

Reasons

Under the current classification of services, Ergon Energy is unable to charge customers to replace an existing street light bulb with an energy efficient light bulb, even when the customer is willing to pay for

this service. Therefore, we consider that it would be in the best interests of customers and Ergon Energy to introduce a new activity relating to this.

In relation to other elements of the existing F&A papers, Ergon Energy notes that these matters were included in the F&A papers published in accordance with the regulatory regime operating under the pervious of Chapter 6 of the Rules. Ergon Energy submits that a review of these additional elements is appropriate to determine whether they should remain in the F&A paper for the 2015-20 distribution determination.