Contact Officer: Laura Considine
Contact Phone: [redacted]
[redacted]

28 November 2025

Alena Chrismas
**Manager Regulatory Affairs**
Energy Queensland Limited

Sent by email [redacted]

Dear Alena,

## Re: Ergon Energy Network's Ring-fencing Waiver Application - other services in isolated systems

Thank you for the application received on 4 March 2025 for a waiver from the obligations in clauses 3.1 and 4.2 of the Ring-fencing guideline (Electricity distribution) (the guideline), to allow Ergon Energy Corporation Limited (Ergon Energy) to continue providing distribution and generation services in the isolated systems located in remote Queensland.

### Ergon Energy's proposal

Ergon Energy is seeking a waiver to allow it to continue providing distribution and generation services in the isolated systems, to service non-NEM connected communities across regional Queensland. Ergon Energy owns and operates 33 isolated power stations that provide generation services, currently predominantly diesel-fired, which support 39 communities across far western Queensland, through the cape and across 16 islands of the Torres Strait. Ergon Energy also has 35 stand-alone networks, not connected to the NEM, that provide distribution services.

These isolated networks, except its 66 kV Mt Isa-Cloncurry distribution network, are not regulated by the AER under Chapter 6 of the NER. Ergon Energy's services in the isolated networks do not meet the definition of 'distribution services' and are therefore 'other services' for the purposes of the guideline. As such, a ring-fencing waiver is required for Ergon Energy to continue to provide generation and distribution services in these isolated networks, and to continue to use Ergon Energy offices, staff and branding in doing so.

The AER granted Ergon Energy an interim waiver on 30 June 2025, which will expire on 30 November 2025, to enable Ergon Energy to continue its distribution and generation services in the isolated networks, while the AER considers appropriate conditions and duration of this waiver. Under 5.3.3. of the guideline, the interim waiver ceases to have effect when the AER makes a further decision to grant or refuse the waiver.

The AER publicly consulted on potential waiver conditions for Ergon Energy's waiver from 2-18 September 2025. We received 2 submissions on potential waiver conditions – from Mirabou Energy and Ergon Energy.

### AER assessment and decision

Under clause 5.3.2(a) of the guideline, when assessing whether or not to grant 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 discriminatory behaviour, and whether the costs of compliance with the guideline outweigh the benefit to consumers of that compliance, including in relation to impacts on competition.

The AER's decision is to grant a waiver to Ergon Energy from clauses 3.1 and 4.2 of the guideline to enable Ergon Energy to continue providing distribution and generation services in the isolated networks. Ergon Energy requires this waiver so long as the Queensland Government's Uniform Tariff Policy (UTP) is in place and Energy Queensland – its parent company – is subsidised via Community Service Obligation (CSO) payments to supply electricity to customers in remote Queensland.

The AER considers granting this waiver aligns with the principles of the NEO, as it contributes to ensuring a reliable, safe, secure supply of electricity for the customers in remote Queensland. Granting this waiver enables Ergon Energy to deliver on the Queensland Government's policy for supplying electricity to customers in isolated networks, and ensures those customers will continue to receive reliable and uninterrupted supply of electricity.

The cost to Ergon Energy of complying with the obligations in the guideline include unnecessary costs of separating staff, offices and branding to deliver energy services in the isolated networks. Any increase in costs would likely flow through to an increase in the Queensland Government's CSO payment. The costs of this would ultimately be borne by Queensland consumers.

Furthermore, we consider cross-subsidisation risks are adequately addressed through Ergon Energy maintaining separate accounts in accordance with the principles and policies of its AER approved Cost Allocation Methodology (CAM). No costs associated with the provision of other services in isolated systems will be allocated to regulated distribution services and accounts will be maintained to ensure clear and transparent demonstration of this to the AER. There are minimal discrimination risks as there is not a viable competitive market in the isolated networks and any party that operates in the isolated networks would likely require government subsidies.

**Waiver duration**

Ergon Energy's waiver application requested that the AER grant a new waiver without a set expiry date, except that 'Ergon Energy notify the AER upon any change in Queensland Government policy that would affect the waiver, such as a change in Queensland Government policy that the basis upon which services are provided in isolated systems are no longer determined by the Queensland Government'.

The AER understands that setting an expiry date for this waiver preceding any changes in the UTP and CSO arrangement, may add to regulatory burden for Ergon Energy. However, we also recognise the value of supporting third-party renewable energy providers that are emerging in those remote areas, as they may develop specialised solutions that benefit remote communities.

The AER is granting this waiver with a duration until 30 November 2030 or until a change in Queensland Government's UTP and CSO arrangements, such that Ergon Energy ceases to have a role in providing electricity generation and distribution services in the isolated networks – whichever occurs sooner.

Limiting the waiver duration to 5 years creates space for the renewable generation market to evolve and for alternative providers to be considered as part of the generation mix in remote Queensland, while ensuring there is stable electricity supply as this transition occurs.

**Waiver conditions**

Under clause 5.3.4 of the guideline, the AER may grant a waiver subject to such conditions the AER considers appropriate.

On balance, the AER believes the stakeholder views, given the current Queensland Government policy setting, warrants waiver conditions which improve clarity and certainty for third-party renewable providers, while avoiding undue regulatory burden for Ergon Energy. The AER recognises the isolated networks are subject to distinct regulatory frameworks administered by Queensland Government, and have considered this in setting the waiver conditions.

This waiver is granted on the following conditions:

- **Condition 1**. Ergon Energy must publish by July 2026 technical and performance standards for third-party connection requests and connection request assessment timeframes, that aligns with, and are no more onerous, than those that would apply to Ergon Energy's network outside of the isolated networks. As part of this, Ergon Energy must publish:
  - Information on the relevant parts of regulations/legislation that govern distributed energy resources (DER) connections in Ergon Energy's isolated networks, so third parties have clarity over the legislative requirements for their connections and Ergon Energy's obligations;
  - reasonable and fair connection process(es) which sets out timeframes, safety, technical and information requirements for applicants, that are 'fit for purpose' for the connection services in isolated networks. These processes must be consistent with the relevant model standing offer approved by the AER and applicable to customers at the time of inquiring about a connection service for the purpose of providing DER;
  - its dispute resolution process and procedure for stakeholder to make complaints.
- **Condition 2**. Ergon Energy must, for the duration of this waiver:
  - Publish on its website, maintain, and update every 6 months, a publicly available report detailing the available capacity in each isolated network for hosting solar PV installations and/or energy storage devices, including the available hosting capacity (expressed in kVA) and the available dynamic solar capacity (expressed in kVA)
  - outline the approach and methodologies used for assessing available network hosting capacity, and demonstrate the appropriateness of its estimation approach
  - provide within 8 weeks, upon request by connection applicants, information on network demand and planning that may impact on available or future hosting capacity, and relevant information to assist third parties to target renewable generation projects.
- **Condition 3.** Ergon Energy must include in its annual compliance report (ACR) to be submitted to the AER, information on any third-party connection requests received specifically for isolated networks, and the connection timeframes. This information must be consistent with the Service Order Reports Ergon Energy publishes on its website in compliance with Queensland Competition Authority reporting requirements, and must include justification for denying a connection request or where an existing connection is modified.

The AER will monitor Ergon Energy's compliance with these reporting conditions and assess if it has been effective in supporting third-party renewable generation that come online.

## Compliance and review matters

The AER has broad discretion to review and revoke ring-fencing waivers that it grants, at any time and on its own initiative if there are grounds to do so. Pursuant to section 5.5 of the guideline, in deciding whether to vary or revoke the waiver, the AER will have regard to the same matters for granting the waiver under clause 5.3.2(a) of the guideline. A minimum of 40 days' notice will be given to Ergon Energy if the AER is considering a variation or revocation of this waiver.

Ergon Energy is reminded that under clause 6.3. of the guideline, Ergon Energy is required to notify the AER in writing within 15 business days of becoming aware of a breach of its obligations under the guideline.

If you would like to discuss this matter further, or have any questions, please contact Laura Considine, Director, New Markets and Innovation, on AERringfencing@aer.gov.au in the first instance.

Yours sincerely

[redacted]

Jarrod Ball
AER Board Member

Sent by email on: 28 November 2025