



# **Replacement of the framework and approach for Queensland and South Australian electricity distribution businesses, 2015–2020**

September 2013

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AER reference: 50835 and 51225

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# 1 Introduction

The Framework and approach (F&A) is the first step in a process to determine efficient prices for electricity distribution services. The F&A determines, amongst other things, which services the Australian Energy Regulator (AER) will regulate and certain aspects of a regulatory determination set out under the National Electricity Rules (the Rules). It facilitates early public consultation on the pricing mechanism for regulated services and the incentive schemes that will encourage efficient network investment. These are important aspects of the regulatory process and have a significant bearing on many aspects of the regulatory proposals that Energex, Ergon Energy and SA Power Networks (network service providers) are required to submit in November 2014.

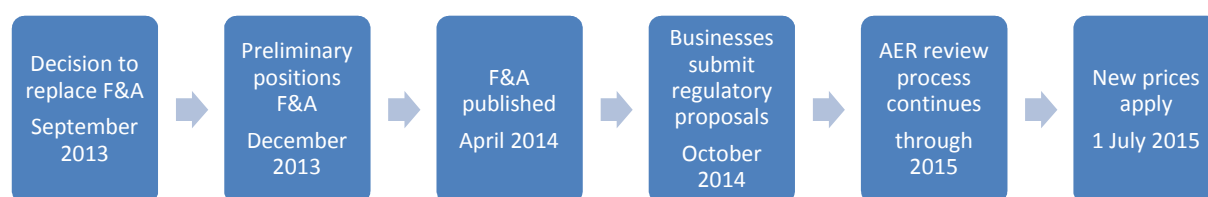
## 1.1 Why is the F&A important for consumers?

The F&A is important because it provides an opportunity for interested parties, including consumers, to have a say in which services we should regulate and how much control we have over determining the prices for network services. The F&A also sets out information around incentive schemes that will apply to network service providers to encourage efficient investment and performance. The sorts of issues we will consider in the F&A include:

- allowing for the possibility of increased competition in the provision of some services traditionally provided only by network service providers. This might happen if, for example, we were satisfied there were no significant barriers to competitive provision of a particular service. In this event, we may decide not to regulate that service, leaving prices to be set by the market.
- determining the provision of some services on a fee for service basis or perhaps as a service for which there is minimal oversight by us. For example, we may determine that a distribution business may bundle the costs for a particular service into a generic electricity supply service (standard control service). Alternatively, we may decide that charging for a service on a user-pays basis is more appropriate (alternative control service). Finally, we may allow consumers and network service providers negotiate the price of a service (negotiated distribution service) and only intervene if the parties cannot reach an agreement.
- setting out whether incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure. The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets. In some instances, network service providers may incur a financial penalty if they fail to meet set targets.

We consider that consumers should be actively involved in the F&A process as the decisions made, particularly relating to pricing, will apply for a five year period before they are reviewed. Diagram 1 provides an overview of where the F&A sits in the Queensland and South Australian reset process. Stakeholder consultation occurs throughout the process.

**Diagram 1: Reset process**



## 1.2 Our decision

For the 2015–2020 regulatory control period we consider it prudent to undertake a more comprehensive review of the Queensland and South Australian F&A papers. Changes to the Rules in November 2012 introduced new incentive schemes and make it possible for us to adopt improved approaches to the assessment of the expenditure forecast by the network service providers.<sup>1</sup> As a result, we consider the scope of changes to the F&A requires us to replace, rather than amend, the F&A papers for Energex and Ergon Energy in Queensland and SA Power Networks in South Australia respectively. This decision sets out our reasons to replace the current F&A papers for the next regulatory control period of 1 July 2015 to 30 June 2020. Appendix A lists the specific matters we will include in the F&A papers. We will also consider any other relevant matters appropriate or convenient for us to address in the F&A papers.<sup>2</sup>

In 2008, we published an F&A paper for the Queensland network service providers and another F&A paper for the South Australian network service provider for the 2010–15 regulatory control period. As the Rules were relatively new at that time, there were a range of transitional provisions in the Rules to assist in the changeover from State based regulators to the National framework. We also adopted a cautious approach, typically not departing from the State regulators' positions in order to minimise the extent of change where possible (even where we had discretion to do so).

In accordance with the Rules, we intend to publish replacement F&A papers by 30 April 2014.<sup>3</sup> Consultation on the replacement F&A papers will commence with publication of a discussion paper for the Queensland network service providers and the South Australian network service provider respectively in December 2013.

Before reaching this decision to replace the Queensland and South Australian F&A papers, we issued a notice under the Rules,<sup>4</sup> inviting submissions on whether it is necessary or desirable to amend or replace the current F&A papers for Queensland and/or South Australia. Submissions closed on 31 July 2013 and we received eight responses.<sup>5</sup> The submissions included a specific request from Ergon Energy to address a number of issues in its F&A that we are required to consider. This is because the Rules include a provision that permits a network service provider to specify certain issues that must be addressed in its F&A.<sup>6</sup> Appendix B contains a summary of submissions. A copy of Ergon Energy's request is at Appendix C.<sup>7</sup>

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<sup>1</sup> Which we outline in a number of recently published guidelines. These guidelines are available at [www.aer.gov.au/Better-regulation-reform-program](http://www.aer.gov.au/Better-regulation-reform-program).

<sup>2</sup> NER, cl. 6.8.1(g). The AER would consult appropriately on any additional matters it wishes to include in the F&A.

<sup>3</sup> NER, cl. 6.8.1(e) and 11.60.3(c).

<sup>4</sup> NER, cl. 6.8.1(a)(2). We issued this notice on 27 June 2013.

<sup>5</sup> Responses for Queensland and South Australia are available at [www.aer.gov.au/node/20187](http://www.aer.gov.au/node/20187) and [www.aer.gov.au/node/20941](http://www.aer.gov.au/node/20941) respectively. Ergon Energy provided a written request in accordance with NER, cl. 6.8.1(c)(1).

<sup>6</sup> NER, cl. 6.8.1(c)(1) and (3)(i).

<sup>7</sup> As required under NER, cl. 6.8.1(c)(3)(ii).

In reaching our decision, we have had regard to the submissions from interested parties.<sup>8</sup>

Reasons for our decision follow.

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<sup>8</sup> NER, cl. 6.8.1(c)(3) and 6.8.1(d).

## 2 Our reasons

This chapter sets out our reasons for deciding to replace the Queensland and South Australian F&A papers for the next regulatory control period of 1 July 2015 to 30 June 2020. The sections below correspond to the various components of the F&A.

### 2.1 New matters to include in the F&A

We consider it necessary to replace the Queensland and South Australian F&A papers in order to deal with a number of issues that we did not need to address in the current F&A. These include:

- the need to include formulae that give effect to the control mechanisms (that is, how price and/or revenues are to be determined during the regulatory control period)
- the likely inclusion of a capital expenditure sharing scheme (to incentivise network service providers to undertake efficient capital expenditure)
- the possible inclusion of a small-scale incentive scheme (pilot or test incentive schemes within an environment that limits the sum of money at risk and the length of time of the scheme)
- the application of the Expenditure Forecast Assessment Guidelines (a nationally consistent reporting framework which allows us to compare the relative efficiencies of network service providers, and decide upon efficient expenditure allowances)
- whether depreciation for establishing the network service providers opening regulatory asset base for the 2020–2025 regulatory control period is to be based on actual or forecast depreciation.<sup>9</sup>

### 2.2 Distribution service classification

We consider it necessary to replace the Queensland and South Australian F&A papers with respect to the classification of distribution services.<sup>10</sup> The Rules require us to determine which services provided by network businesses will be subject to regulation as well as the manner in which we will regulate those services.<sup>11</sup> That is, whether we will directly control prices or take a lighter handed approach and only become involved to arbitrate disputes. We may also decide not to regulate a particular service. We make these decisions by assessing a range of factors to determine whether there is competition or potential for competition for the provision of that service.

We consider it timely to conduct a comprehensive assessment of distribution service classification in Queensland and South Australia and whether barriers to competition exist given recent energy sector reforms. This will provide an opportunity for interested parties to convey views on possible options to allow for competition of electricity services to develop.

Several submissions discussed reviewing the classification of services, especially the unbundling of metering services and public lighting.<sup>12</sup> Ergon Energy requested that we amend the current

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<sup>9</sup> NER, cl. 6.8.1(b)(2).

<sup>10</sup> NER, cl. 6.8.1(b)(2)(i).

<sup>11</sup> NER, cll. 6.2.1 and 6.2.2

<sup>12</sup> SA Department of Planning, *Transport and Infrastructure, South Australian Framework and approach paper*, 25 July 2013; Origin, *Queensland and South Australia framework and approach for the period 2015–2020*, 31 July 2013; Local Government Association of South Australia, *South Australian Framework and approach paper*, 29 July 2013; Trans Tasman Energy Group, *Queensland and SA distribution businesses - Framework and approach*, 18 July 2013.

classification of services<sup>13</sup> to include additional activities relating to the retrofitting of energy efficient street lights at a customer's request. We must consider this request in developing the replacement F&A for Queensland.<sup>14</sup>

## 2.3 Form of control

For distribution services classified as direct control services, we must determine the price or revenue controls (or some other hybrid arrangement) for each service or group of services. We consider it necessary to replace the Queensland and South Australian F&A papers with respect to the form of control as we expect to classify some services differently.<sup>15</sup>

The form of control may be, for example, a cap on revenue or a cap on prices charged by the network service providers. The Rules set out assessment criteria we must consider.<sup>16</sup> We may also apply additional criteria in considering the form of control we will apply (as we have done elsewhere).<sup>17</sup> Our assessment is particularly important as our decision on the form of control in the F&A is binding.<sup>18</sup>

At present, Queensland operates under a revenue cap. We received a submission from Origin supporting a move to a weighted average price cap.<sup>19</sup> The Queensland Government, subject to further work confirming customer benefits, also supports a weighted average price cap in principal.<sup>20</sup> Energex also submits that we should address all matters relevant to the control mechanism under the new Rules.<sup>21</sup>

SA Power Networks currently operates under a weighted average price cap. SA Power Networks is yet to express its views about the control mechanism going forward. SA Power Networks submitted that recent changes to energy policy and operating environment could result in amended approaches to the form of control mechanism.<sup>22</sup>

The Rules also require us to set out the control mechanism we will apply. The control mechanism is the formulae we will use to calculate service prices. The control mechanism listed in the F&A is not binding and so may be changed at the time of the Determination if unforeseen circumstances arise.

## 2.4 Dual-function assets

Dual-function assets are high voltage transmission assets forming part of the distribution network. Transmission network service providers usually operate these assets. Considering transmission assets as part of a distribution determination avoids the need for a separate transmission proposal. Where a network service provider owns, controls or operates dual-function assets, we are required to consider whether we should price these assets according to the transmission or distribution pricing principles.

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<sup>13</sup> AER, *Final decision, Framework and approach paper, Classification of services and control mechanisms, Energex and Ergon Energy 2010–15*, Appendix B.

<sup>14</sup> NER, cl. 6.8.1(c)(3)(i).

<sup>15</sup> NER, cl. 6.8.1(b)(2)(ii).

<sup>16</sup> NER, cl. 6.2.5.

<sup>17</sup> In the New South Wales and Australian Capital Territory F&A processes, we applied three additional criteria in our form of control mechanism assessment. For consistency, we consider it prudent to apply the same criteria to Queensland and South Australia. See AER, *Stage 1 Framework and approach paper Ausgrid, Endeavour Energy and Essential Energy 2014–2019*, March 2013, p. 43.

<sup>18</sup> NER, cl. 6.8.1(b)(1)(i) and 6.12.3(c) and (c1).

<sup>19</sup> Origin, *Queensland and South Australia Framework and approach for the period 2015–2020*, 31 July 2013.

<sup>20</sup> Queensland Government, *Response to the Interdepartmental Committee on Electricity Sector Reform*, 2013.

<sup>21</sup> Energex, *Queensland Electricity Distribution Businesses Framework and approach*, 24 July 2013; AER, *Draft Rate of Return Guidelines*, August 2013.

<sup>22</sup> SA Power Networks, *New framework and approach paper for 2015–2020 regulatory control period*, 19 July 2013.



The treatment of dual-function assets is not a feature of the current Queensland and South Australian electricity determinations or F&A papers. This is because none of the network service providers owned, controlled or operated dual-function assets at the time of the last determination.

Neither Energex nor Ergon Energy currently own, control or operate any dual-function assets. This is because there is a permanent derogation in the Rules in relation to the definition of 'transmission network' in Queensland.<sup>23</sup>

SA Power Networks also does not currently own, control or operate any dual-function assets.<sup>24</sup>

For these reasons we do not need to make a decision in regard to dual-function assets in the F&A papers.

## 2.5 Application of incentive schemes

We have developed several mechanisms that provide incentives for network service providers to invest efficiently and therefore be more likely to operate in the long term interests of consumers. These schemes include the service target performance incentive scheme, efficiency benefit sharing scheme, capital expenditure sharing scheme and demand management and embedded generation connection incentive scheme. The overall objectives of the schemes are to:<sup>25</sup>

- incentivise network service providers to spend more efficiently on capital and operating expenditure
- reduce the risk of consumers paying for unnecessary capital expenditure
- share efficient improvements and losses between network service providers and consumers
- encourage appropriate levels of service quality
- maintain network reliability as appropriate.

We consider it necessary to replace the Queensland and South Australian F&A papers with respect to the application of all incentive schemes.<sup>26</sup>

A number of incentive schemes already apply to the network service providers. The Rules also contain a number of new incentive schemes. Additionally, the Australian Energy Market Commission completed its Power of Choice review in November 2012. This review proposed a number of recommendations to the Standing Council on Energy and Resources on required changes to the Rules and broader market reforms. These include those relating to the demand management embedded generation connection incentive scheme and other demand side incentives.

We are also reviewing the application of the efficiency benefit sharing scheme and service target performance incentive scheme in light of the AEMC's reforms to ensure that these schemes operate effectively. We foresee further developments in this area.

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<sup>23</sup> NER, cl. 9.32.1(b).

<sup>24</sup> SA Power Networks, email to the AER, 2 September 2013.

<sup>25</sup> AER, *Electricity distribution network service providers, Service target performance incentive schemes*, June 2008, p. 2; AER, *Better Regulation, Draft expenditure incentives*, 9 August 2013.

<sup>26</sup> NER, cl. 6.8.1(b)(2)(iii)-(viii).

Origin and SA Power Networks support amending or replacing the F&A papers for Queensland and/or South Australia to address the application of incentive schemes given recent policy changes and reforms.<sup>27</sup>

## 2.6 Other matters

Ergon Energy requested that we review a range of 'other matters' addressed in the existing F&A paper<sup>28</sup> developed in accordance with the previous Chapter 6 of the Rules. Ergon Energy states that a review of these additional elements is necessary to determine whether they should remain in the F&A paper for the next regulatory control period.<sup>29</sup> The 'other matters' include:

- negotiating framework (provides a framework for network service providers and consumers to negotiate services and prices for services classified as negotiated distribution services)
- Mt Isa–Cloncurry network (an isolated distribution network that was regulated by the Queensland Competition Authority at time the current Queensland F&A paper was published)
- asset categories and asset lives (the groups of assets and their life-span for regulatory reporting purposes)
- regulatory asset base value (the value of Ergon Energy's regulated assets at a point in time)
- no prudency review (a review of whether Ergon Energy's capital expenditure has been prudent)
- various aspects of cost pass throughs<sup>30</sup> (where network service providers apply to pass on costs to consumers)
- application of security of supply standards (approved by the Queensland Government).

We will address these additional elements in a replacement F&A paper for Queensland.<sup>31</sup>

Ergon Energy and Energex also submitted that we should clarify in the Queensland F&A paper a number of transitional arrangements that will not apply in the next regulatory control period.<sup>32</sup> These include the:

- treatment of capital contributions in calculating the Annual Revenue Requirement
- treatment of solar feed-in tariffs
- treatment of revenue adjustments for the carry forward of over-recovery and under-recovery of revenue for the current regulatory control period.

Ergon Energy also suggested the AER should address the following issues:<sup>33</sup>

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<sup>27</sup> Origin, *Queensland and South Australia framework and approach for the period 2015–2020*, 31 July 2013; SA Power Networks, *New framework and approach paper for 2015–2020 regulatory control period*, 19 July 2013.

<sup>28</sup> AER, *Final F&A paper, Application of schemes, Energex and Ergon Energy 2010–15*, November 2008, pp. 47–58.

<sup>29</sup> Ergon Energy, *Submission on whether it is necessary or desirable to amend or replace the current framework and approach*, 31 July 2013.

<sup>30</sup> This includes cost pass through for input cost increases, cost pass through materiality threshold, cost pass through amount, information requirements and process.

<sup>31</sup> NER, cl. 6.8.1(c)(3)(i).

<sup>32</sup> Energex, *Queensland Electricity Distribution Businesses Framework and approach*, 24 July 2013; AER, *Draft Rate of Return Guidelines*, August 2013; Ergon Energy, *Submission on whether it is necessary or desirable to amend or replace the current framework and approach*, 31 July 2013.

- 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 Cloncurry
- the recovery of entry and exit charges relating to non-regulated connection points between Powerlink's transmission network and Ergon Energy's distribution network
- approach to capital contributions policy in the absence of National Energy Customer Framework requirements.

The Rules require us to consider these matters in developing the F&A for Queensland for the next regulatory control period. However, similar to the current Queensland F&A,<sup>34</sup> we may consider it unsuitable to state a specific position on these matters in the F&A. This may be because, for example, our position may be dependent on information that will only become available once a network service provider submits its regulatory proposal.

For the above reasons and having regard to the submissions, we consider it necessary to replace the F&A for Queensland and South Australia for the next regulatory control period of 1 July 2015 to 30 June 2020. We expect to issue a discussion paper on the Queensland and South Australian F&A papers respectively in December 2013 outlining preliminary views on the matters outlined in this decision. We must then publish both the Queensland and South Australian F&A papers by 30 April 2014.

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<sup>33</sup> Ergon Energy, *Submission on whether it is necessary or desirable to amend or replace the current framework and approach*, 31 July 2013.

<sup>34</sup> AER, *Final framework and approach paper, application of schemes, Energex and Ergon Energy 2010–15*, November 2008, pp. 47-58.

## Appendix A – Matters to be addressed in the F&A

The replacement Queensland and South Australian F&A will address the following matters:

- classification of distribution services (which services we will regulate)
- form of control mechanisms (how we will determine prices for regulated services) and the control mechanism formulae that give effect to the form of control mechanisms
- application of a range of incentive schemes that encourage things like service quality, improvements in network reliability or efficient capital and operating expenditure. This includes application of the:
  - service target performance incentive scheme
  - efficiency benefit sharing scheme
  - capital expenditure sharing scheme
  - demand management and embedded generation connection incentive scheme
  - small-scale incentive scheme
  - expenditure forecast assessment guidelines
- whether depreciation for establishing the regulatory asset base the network service providers opening regulatory asset base for the 2020–2025 regulatory control period is to be based on actual or forecast capital expenditure
- 'Other' matters as outlined in section 2.6 (Queensland F&A only).

## Appendix B – Submissions

COMPANY/ORGANISATION	STATE <sup>35</sup>	SUBMISSION SUMMARY
Energex	QLD	<p>The AER should address all matters relevant to the control mechanism for the new F&amp;A including the implications to the control mechanism formulae due to changes with the:</p> <ul style="list-style-type: none"> <li>rate of return provisions and guideline, particularly the new return on debt provisions</li> <li>revenue and pricing controls due to the expiry of several transitional arrangements</li> </ul>
Ergon Energy	QLD	<p>Ergon Energy requests the AER:</p> <ul style="list-style-type: none"> <li>extend the classification of services to retrofitting energy efficient street lights.</li> <li>address 'Other matters' outlined in Chapter 5 of our <i>Final F&amp;A paper, Application of schemes, Energex and Ergon Energy 2010-15</i> (November 2008) and whether these matters will apply to the F&amp;A for the next regulatory control period.</li> </ul> <p>Ergon Energy also submits that the AER address:</p> <ul style="list-style-type: none"> <li>adjustments in revenue and pricing controls due to the expiry of several transitional arrangements</li> <li>provide guidance to revenue adjustments for over-recovery or under-recovery of revenue and the approach to capital contributions policy</li> </ul>
Origin	QLD/SA	<p>The AER should amend or review the current F&amp;A on matters including the:</p> <ul style="list-style-type: none"> <li>classification of metering services in Queensland and South Australia</li> <li>form of control – moving to a weighted average price cap (WAPC)</li> <li>application of incentive schemes in Queensland and South Australia</li> </ul>
Trans Tasman Energy Group	QLD/SA	<p>The AER should review the classification of 'non-natural' monopoly services provided by network service providers, particularly the classification of public lighting services to negotiated distribution services.</p>
Department of Planning, Transport and Infrastructure in South Australia	SA	<p>The AER should retain its current classification of SA Power Networks' public lighting services for the next regulatory control period.</p>

<sup>35</sup> The State/s each submission relates to.

COMPANY/ORGANISATION	STATE <sup>35</sup>	SUBMISSION SUMMARY
Local Government Association of South Australia	SA	The AER should retain its current classification of SA Power Networks' public lighting services for the next regulatory control period.
SA Power Networks	SA	<p>The AER should develop a new F&amp;A applying only to SA Power Networks necessitated by extensive changes to the Rules which include additional matters not covered in the current F&amp;A. Due to changes in energy policy and processes and methodologies, the AER should also amend approaches to the:</p> <ul style="list-style-type: none"> <li>▪ form of control</li> <li>▪ classification of certain distribution services</li> <li>▪ service target performance incentive scheme</li> </ul>
South Australian Council of Social Services	SA	The AER should amend or replace the F&A for SA Power Networks for the next regulatory control period due to significant changes in the energy market.

## Appendix C – Ergon Energy's request

Ref: JD/BC

Date: 31 July 2013

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General Manager – Network Regulation  
Australian Energy Regulator  
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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.

Ergon Energy Corporation Limited ABN 50 087 646 062  
Ergon Energy Queensland Pty Ltd ABN 11 121 177 802

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 previous 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.